

MINISTERIAL STATEMENT

Guy Barnett MP, Minister for Energy and Renewables 5 September 2023

Energy Projects - Update

Mr Speaker, I committed on 17 August to further update the House at the earliest opportunity on Marinus and associated energy projects.

Today I will provide that update for the House. I will discuss the agreement the Tasmanian Government has negotiated with the Commonwealth Government about Marinus Link. I will talk to the North West Transmission Developments, Battery of the Nation projects and energy security in Tasmania.

In the last session of parliament, I tabled the following documents:

- a letter from the chair of Marinus Link outlining the risks of disclosing cost estimates for the Marinus Link project during live procurement;
- a letter from the chair of TasNetworks outlining the risks of disclosing cost estimates for the North West Transmission Developments during live procurement;
- advice from the CEO of Renewables, Climate and Future Industries Tasmania (ReCFIT) regarding the risks of releasing the cost estimates of both projects during live procurement; and
- a letter from Hydro Tasmania containing the latest cost estimates for the Battery of the Nation projects.

I tabled what I was able to without breaching contractual obligations and exposing the state to sovereign and legal risk.

During the last session of Parliament, the Tasmanian Government was in live negotiations with the Commonwealth Government about Marinus Link. Further, Marinus Link was in a live procurement process with strict probity guidelines that legally prevented public disclosure of cost estimates. The strong advice I received was that disclosing any information while active procurement processes were underway is detrimental to the probity and would have serious unintended consequences for the future of Tasmania, including legal consequences.

I was also advised that the appropriate time to disclose the information such as the estimated cost for a project is once procurement processes have concluded and in accordance with generally accepted probity principles and subject to any contractual arrangements between the parties. Today I am happy to inform parliament that these matters have been positively resolved.

As announced over the weekend, we furthered the agreement with the Commonwealth and Victoria regarding Project Marinus announced as part of the October 2022 letter of intent. That agreement provided greater clarity around the future of the project, including tripartite ownership

arrangements, concessional financing under the Rewiring the Nation Fund and cost allocation between Tasmania and Victoria.

Since that time, the tender process has been run by Marinus Link to secure manufacturing slots for the cable and converter stations required for the project and the procurement has progressed to an extent where figures can now be disclosed without opening up the state to legal and financial risk.

Marinus is competing in a global market and with tight supply chains is facing similar inflationary pressures to other major energy and infrastructure projects worldwide. This has led to tender responses for the initially envisaged two-cable 1500-megawatt project, which would have resulted in an unacceptable cost impact on Tasmanian electricity consumers. We were advised that estimates for the project would be approximately \$5.5 billion.

Consequently, following discussions with the Commonwealth and Victoria, it has been decided to take forward a single 750-megawatt project scope at this time, with the option for a second cable to be considered after the financial investment decision on cable 1, planned for late 2024. The tender process was progressed as a single-cable project as a result of our successful negotiations with the Australian Government. It has now reached a point where I am advised it is appropriate to share cost estimates.

The single cable scope, which includes cable and converter components, is now estimated through the tender processes at \$3 billion-\$3.3 billion. The project will be funded 20 per cent from equity contributions and 80 per cent of debt funded through the Clean Energy Finance Corporation. The debt will sit with the entity that owns the project. We have further reduced our potential exposure to the project by negotiating a reduced equity stake in the tripartite entity, such that the state will now have only a 17.7 per cent ownership of the project.

On current estimates, Tasmania is projected to be responsible for 3.54 per cent of the current project costs to reach commissioning. The effect of this is that Tasmania's financial contribution toward the project will be limited to approximately \$115 million equity based on current project cost estimates. This is the cost of ownership of the asset.

The joint entity that will realise each government share will be set up by the end of 2023, allowing the project to progress and be funded in line with our agreement. We also have an option to sell our equity in the project to the Commonwealth once it is operational. If we exercise this option to sell our equity, we will have no ownership of the project entity and, therefore, no responsibility for the long-term debt the entity holds. While we have this option, Tasmania has retained decision-making rights in the project, ensuring we continue to have our say in its delivery should it progress past FID.

The final cost to customers will be determined through the Australian Energy Regulator in a fully transparent independent process. The AER will set the maximum allowable revenue (MAR) for the project based on a number of factors, including the final cost to complete the project, the cost of debt, return on equity, depreciation of the assets and other factors. The MAR is recovered from customers through electricity bills. Transmission costs represent approximately 40 per cent of the typical Tasmanian customer's electricity bill. Tasmania's share of these costs is estimated to be around 11 per cent of the pre-concessional finance MAR and includes a concessional finance

discount for Tarraleah, to be passed through to consumers. The low-cost financing for Rewiring the Nation will reduce the annual costs of Project Marinus for electricity customers by almost half.

The quoted 6 per cent of benefits of the project are only the benefits from a projected reduction in wholesale electricity price and annual energy consumption. Current FDI consulting modelling shows that power prices will be lower with Marinus than without Marinus. And there are far more comprehensive economic benefits to Tasmania than just forecast lower energy prices for Tasmanians. Updated modelling from Marinus Link estimates the project will bring approximately \$2 billion in economic activity, over 1400 jobs to Tasmania and billions in new investment.

It is important to note that the project is still subject to a whole-of-state business case and financial investment decision. The whole-of-state business case will consider the financial, economic and social impacts of Project Marinus and its associated energy projects and issues on Tasmania and the Tasmanian community. This work will be led by Treasury and will be prepared in the context of the information available at the time. The business case will be completed and independently peer-reviewed at least 30 days before a financial investment decision is due and will be made publicly available. The whole-of-state business case assessment will consider Marinus Link, the North West Transmission Developments, the Battery of the Nation projects, broader renewable energy and load growth developments to fulfil the Government's policy commitments and other impacts on Tasmania's energy sector.

We will make a decision with Tasmania's best interest in mind. The funding arrangements for Marinus Link have landed on our side of the line in the sand thanks to further concessional finance being provided by the Commonwealth Government, which we greatly appreciate. Given the pressure on procuring the necessary infrastructure, the Commonwealth has also agreed to play an underwriting role that will allow Marinus Link to reserve a spot in the manufacturing queue for the cable. This is a crucial risk mitigant for Tasmania. The Commonwealth underwriting enables the project to progress before making a financial investment decision in late 2024.

The project rescoping also means the North West Transmission Developments will be reviewed. This work will occur while TasNetworks completes its request for proposal for the North West Transmission Developments currently underway. The cost estimate of North West Transmission Developments in 2022 was \$832 million. Given the rescoping, my latest advice is that this is expected to be lower. TasNetworks will provide an updated project cost following the RFP process.

As part of the updated agreement with the Commonwealth, we have secured deeply concessional financing for the North West Transmission Developments. A revised agreement will allow the Government to progress its energy strategy. The Tasmanian Government is happy to disclose further details on the deeply concessional financing arrangements, but the Commonwealth Government has requested it remain confidential due to federal-state relations. We will continue to work in good faith with our federal counterparts.

A one-cable scope will deliver enhanced energy security, it will still allow us to redevelop the Tarraleah Power Station, it still provides a path to market for significant new private sector renewable generation, and it will ensure Tasmanians pay less for electricity than they would in a world without Marinus. The analysis of a one-stage Marinus indicates that it will support between 1.5 gigawatts and 2 gigawatts of new generation. This would represent material progression towards the full Tasmanian renewable energy target.

This rescoping has some impacts. Our export capability is limited relative to the two-cable model we had envisaged, which for now means our pumped hydro ambitions may take a little longer to realise. I am confident that the National Electricity Market (NEM) needs this long-duration storage, as evidenced by the Electricity Statement of Opportunities released by the Australian Energy Market Operator last week. We will continue to progress the Cethana pumped hydro project and present the merits of this case, but a second Marinus cable will only be taken forward with the state's approval.

In some ways, Tasmania does not have the burning platform of other jurisdictions that are facing the lights turning off. But I emphasise that there is no 'do nothing' for Tasmania regarding bringing on new sources of generation if we want to meet our own growing energy needs. What we have lost in the debate over Project Marinus is that it is not just about exports. We expect that a single-cable scope can help us to firm significant new load growth in the state, be it developing new industries, expanding our major industrials or supporting population growth and greater household and business electrification. But this will require new generation to be built in Tasmania to maintain our net renewable credentials, which is the reason so many businesses want to locate to our state. Marinus supports new generation in our planned onshore and offshore renewable energy zones, which we continue to discuss with the community.

In addition to Marinus's energy security and electricity trading benefits, there is also the expected direct economic stimulus of construction and the renewable generation it enables. Further, Tasmania will have the option to sell its share of the project to the Commonwealth post-commissioning, removing any long-term debt and concerns about calls for additional equity on the state's balance sheet.

I thank the Commonwealth Government for their cooperation and note Mr Bowen's comments:

This is a game-changing project for both Tasmania and the mainland, and this updated agreement will not only deliver the benefits of Marinus Link, it will be cheaper to Tasmanians. A win-win for Tasmanian consumers, for Tasmanian energy security and put downwards pressure on energy bills.

I agree.

Expenditure on Marinus and north-west transmission to 30 June 2023 is as follows: \$57.1 million from the state, \$66 million from the Commonwealth, totalling \$123.1 million.

I will update the House on the planning and approvals required for Marinus Link and the north-west transmission development.

Project Marinus is a very complex project, subject to extensive and rigorous environment, planning and social impact assessments, and other due diligence activities that allow for both parliamentary and regulatory oversight, and the ability for the community to make representations. I remind members that in August 2020 both Houses of the Tasmanian parliament approved an order authorising the north west transmission developments to be assessed under the Major Infrastructure Development Approvals Act 1999. This approval included consultation with relevant local councils and a public interest test. The order for the north west transmission developments

was approved because it was essential to Project Marinus and in the public interest. The order provides for the north west transmission developments to be assessed by an independent expert panel appointed by the Tasmanian Planning Commission. It will also require approval by the Commonwealth under the Environment Protection and Biodiversity Conservation Act. Development applications for the north west transmission developments are being prepared for submission to the Tasmanian Planning Commission later this year and will be exhibited for public comment.

Marinus Link is a complex project spanning multiple jurisdictions and, as such, Tasmania, Victoria and the Commonwealth planning requirements will need to be met for various parts of the project. Marinus Link project documentation, including surveys, studies and environmental impact assessments, is currently being prepared. This project documentation will be available in early 2024 for public comment.

TasNetworks is investigating the strategic benefit payment to land owners impacted by transmission developments, utilising a similar approach to that planned in New South Wales and Victoria, and appropriate to the nature of energy developments proposed in Tasmania and local landowner needs. The SBP would be a payment to landowners impacted by the North West Transmission Developments that is in addition to that afforded under the Land Acquisition Act. The purpose of the SBP is to acknowledge the vital role that landowners play in hosting the energy infrastructure that unlocks broader private and community economic benefits. TasNetworks will continue to work with impacted landowners and other key stakeholders to ensure the approach to compensation is fair and equitable.

There are three key publicly available documents highlighting the case for Project Marinus. The first is the Business Case Assessment document completed by TasNetworks in 2019 and supported by funding from the Australian Renewable Energy Agency (ARENA). This report found that there was a case to progress Project Marinus, and subsequently, further work has commenced to do further due diligence on the project.

The second critical report is the three Regulatory Test for Transmission - referred to in the sector as the RIT-T - reports for Marinus Link, particularly the Public Assessment Conclusions Report or PACR in 2021. The PACR report found that the preferred option for Marinus Link, a 1500MW capacity interconnector in two 750MW stages, delivered benefits well in excess of the expected project costs.

The final key report for Project Marinus is the 2022 Integrated System Plan or ISP prepared by the Australian Energy Market Operator. The ISP outlines that Project Marinus is a very important actionable ISP project and provides significant net market benefits to the National Electricity Market, further supporting the RIT-T conclusions. There have also been prior publicly available studies into the potential for further interconnection between Tasmania and Victoria that occurred before Project Marinus was formally commenced. Public information can be found on the project proponent's websites, and I would encourage members to read all of these publicly available documents.

I also want to update the House on Hydro Tasmania and the Battery of the Nation projects. The AEMO forecasts Australia will need up to 46 gigawatts of new energy storage over the next 30 years. Battery of the Nation includes the potential development of a new pumped hydro site, redevelopment of existing hydropower and better use of existing latent capacity. Hydro Tasmania

is looking to redevelop and better utilise the existing hydropower fleet. With recent support from the Tasmanian and Australian Governments, the business is progressing with the early works and upgrade works for a potential redevelopment of the Tarraleah hydropower scheme. If a positive FID is taken, a redeveloped Tarraleah would significantly increase the station's capacity and increase the renewable energy that can be generated from its existing water resources.

As part of the renegotiated agreement with the Commonwealth, we have secured deeply concessional financing for Tarraleah. Combined with the first 750MW stage of Marinus Link, this will provide low-cost, reliable, and clean energy to the NEM. Further power station upgrades on the west coast are also possible in conjunction with planned renewal works to improve capacity. Hydro Tasmania has identified Lake Cethana as the number-one pumped hydro site and further feasibility work is under way.

If the Battery of the Nation projects are progressed, hydro generation will remain a key part of the Tasmanian generation mix. It will continue to play a significant, though not sole, role in providing energy security for the state. A federation funding agreement was signed in April 2022 providing a \$123 million commitment from the state, the Australian Government, and Hydro Tasmania to progress work for potential redevelopment of Tarraleah. The upgrade works include dam upgrades, intake excavations and the development of ancillary support infrastructure. These works are required regardless of whether the Tarraleah redevelopment has a positive FID because Tarraleah is more than 80 years old and in need of refurbishment whether or not Marinus Link is built.

Hydro Tasmania is developing a business case for Tarraleah. I commit to the preliminary business case being made available. This looks at several redevelopment options and the additional work and investment required to develop the full business case. As tabled on 16 August, the current estimate of the capital cost of Tarraleah in the preliminary business case ranges from \$851 million for a refurbishment of the existing scheme to \$1 050 million - all in 2022/23 dollars - for the redevelopment.

The next phase of the procurement process is engagement with contractors, which will give further confidence regarding the project's construction cost. This will further inform the development of the final business case, delivered in 2024, to lead to the final investment decision at the end of 2024. The redevelopment of the Tarraleah hydropower scheme could create up to 250 jobs during peak construction.

Mr Speaker, I also want to touch on the Cethana pumped hydro project. Hydro Tasmania analysis 2020 estimates that a first pumped hydro site could cost \$1.5 billion and would deliver up to 300 jobs across peak construction. The preliminary business case for this project has been developed and will be considered by the Hydro Tasmania board. It is important to note that to proceed, projects must demonstrate that they are sound investments; that is, they have a robust and positive business case with an acceptable financial return on investment. I also note that extensive approval process is required for both projects, including parliamentary approval. The Tarraleah redevelopment and Cethana pumped hydro both require parliamentary approval in accordance with the Hydro Electric Corporation Act 1995 and will also be assessed under the relevant planning legislation such as the Land Use Planning and Approvals Act 1993 and the Commonwealth Environment Protection and Biodiversity Act 1999. Community consultation is already well underway with both these projects allowing Tasmanians to have their say and shape

the final business case. I commit to open dialogue and engagement with my parliamentary colleagues throughout this process.

I acknowledge that when the Government drew the line in the sand concerning Marinus queries were raised about energy security in Tasmania. I want to be very clear. Our energy security is not at risk. We have a very strong supply of energy for our current needs. Our dams are at 46 per cent, the highest for this time of year since 2019. What we need is more energy for the future. We need more supply to meet the needs of our growing economy and our growing population. Overall, the long-term average inflows into our hydro storages deliver in the order of 9000 gigawatt hours in a year. Sometimes this amount is higher, contributing to longer-term storage or more electricity exports to the mainland. Sometimes the amount is lower. We either draw on storage or import more electricity. Tasmania's hydro storages have been consistently maintained at or around the prudent storage level for the past three years.

Hydropower remains a vital part of Tasmania's energy system, but our existing Hydro assets will not generate all the energy we need for the future. As our communities and industries grow, so does the demand for clean electricity. We must continue to invest in new renewable energy generation, storage and transmission to support our island's economic and social prosperity and we have made this clear with our legislated Tasmanian Renewable Energy Target. Hydro Tasmania can play an important firming role when the wind is not blowing or the sun is not shining through upgraded existing hydropower schemes. Tasmania currently generates about 17 per cent of its total energy needs from wind and we expect that wind energy will play an even bigger role in the future. As I mentioned previously, a one-stage Marinus is expected to support between 1.5 gigawatts and 2 gigawatts of wind generation. This would represent material progression towards the 2040 Tasmanian Renewable Energy Target.

Mr Speaker, I table a list of publicly available documents relating to Marinus Link, North West Transmission Developments and Battery of the Nation. I encourage members to read this information. Further, we will be proactively offering briefings on Marinus and associated projects. I understand the importance of these projects to the community. There will be ongoing community engagement and dialogue as the assessment of the projects continues ahead of any final decision.

As I have just outlined, there are several factors and areas to consider when developing energy policy for Tasmania. While I have mentioned many aspects of Tasmania's energy ecosystem today, the Tasmanian Government is taking many more initiatives and actions to ensure that Tasmanians continue to have among the lowest energy prices in the nation. I hope the information I have provided today has enlightened the House and I table the documents.
