

Consumer Advisory Panel Engagement Process Report on the Marinus Link Proposal (Part A - Early Works Stage)

An independent report for the AER from the Consumer Advisory Panel
August 2023

1. Introduction

As a single stand alone project, Marinus Link Pty Ltd (Marinus Link) has several unique features that set it apart from other revenue resets:

- Marinus Link will be constructed after the revenue determination has been settled;
- Marinus Link is expected to provide benefits to customers in multiple regions of the National Electricity Market, rather than meeting the needs of customers in a particular region;
- There is no historical data available for the purposes of setting a service target performance incentive scheme (STPIS) or an efficiency benefit sharing scheme; and
- The entire regulatory asset base for Marinus Link will be determined during the revenue determination process.

As a result of these features, Marinus Link believed there was limited scope for consumer engagement to influence many aspects of the revenue proposal compared to a typical transmission or distribution reset. It sought to therefore tailor the design of its consumer engagement accordingly, while still seeking to be aligned to the AER Better Resets Handbook.

A key part of that process was the engagement of a Consumer Advisory Panel (CAP) to provide guidance to Marinus Link and its approach to consumer engagement during the development of its initial Revenue Proposal (Part A – Early Works) to the Australian Energy Regulator (AER). The terms of reference for the CAP are at Attachment 1 of this report.

Marinus Link sought broad consumer representation on its CAP and the following representatives contributed actively to the CAP process:

- Leigh Darcy, Tasmanian Minerals, Manufacturing & Energy Council;
- Prof. Richard Eccleston, University of Tasmania;
- Anne Nalder, Small Business Association of Australia;
- Elizabeth Skirving, Rural Business Tasmania;
- Stephen Durney, Tasmanian Council of Social Services;
- Gavin Dufty, St Vincent de Paul Society Victoria; and
- John Pauley, Tasmanian Council on the Ageing.

Two other representatives were invited to join the CAP. However, while present at some initial meetings they were not able to commit to the full Marinus Link CAP process:

- Andrew Roberts, CEO Energy Users Association of Australia; and
- Nicolle Griffin, Federation University, Victoria (initial meetings only).

The CAP has worked collegiately and has been able to influence the engagement program. Additionally, it has challenged Marinus Link in developing its Part A – Early Works regulatory proposal.

This report reflects the independent CAP's views on how Marinus Link has met the engagement goals and objectives it set for itself and also the extent to which this process has aligned with the AER Better Resets Handbook. It should be noted that this report has been prepared prior to recent media articles indicating a significant increase in the cost of

the Marinus Link project, and also prior to the release of an updated ownership agreement between the Tasmanian and commonwealth governments.

2. Marinus Link's Approach to Engagement

Engagement goals and objectives

Marinus Link set itself the following engagement goals:

- To undertake engagement to deliver a Revenue Proposal that is supported by consumers and other stakeholders and capable of acceptance by the AER;
- To establish a Final Revenue Decision that supports the timely completion of Marinus Link and a commercial return for owners reflective of the risks of the project; and
- To maintain consumer engagement through to project commissioning to ensure that the project is delivered prudently and efficiently.

It sought to fulfil these goals by:

- Making the process inclusive and ensuring participants are supported to participate in the process in an informed way;
- Identifying the areas that consumers can influence and providing them with a real opportunity to participate in our decisions, especially where they can have the greatest impact;
- Identifying and understanding consumer concerns, and the key risks and benefits of the revenue proposal for consumers;
- Where possible, reflecting consumers' views and preferences in its decisions to achieve a better outcome and ensuring consumers understand how their feedback has been considered; and
- Seeking consumer feedback on its draft Revenue Proposal.

In response to initial feedback from consumer advocacy groups on what a robust and effective process would look like, Marinus Link committed to:

- Clearly communicating the costs, benefits and risks of the project and being transparent about any assumptions involved;
- Being responsive to participants –including demonstrating that their feedback had been heard and how it has been used;
- Having hard conversations and accurately reflecting the outcomes of this robust discussion in the proposal;
- Working on a 'no surprises' basis with participants in the process, including providing an opportunity to review the draft proposal before it was submitted; and
- Supporting independent assessment or research as agreed with the Consumer Advisory Panel.

Engagement scope

Marinus Link has sought throughout the engagement process to be transparent on the areas where engagement was considered to be able to have its greatest impact. It considered that by providing a clear scope for engagement expectations about how consumers may influence the process would be more realistic. The diagram over the page identifies the

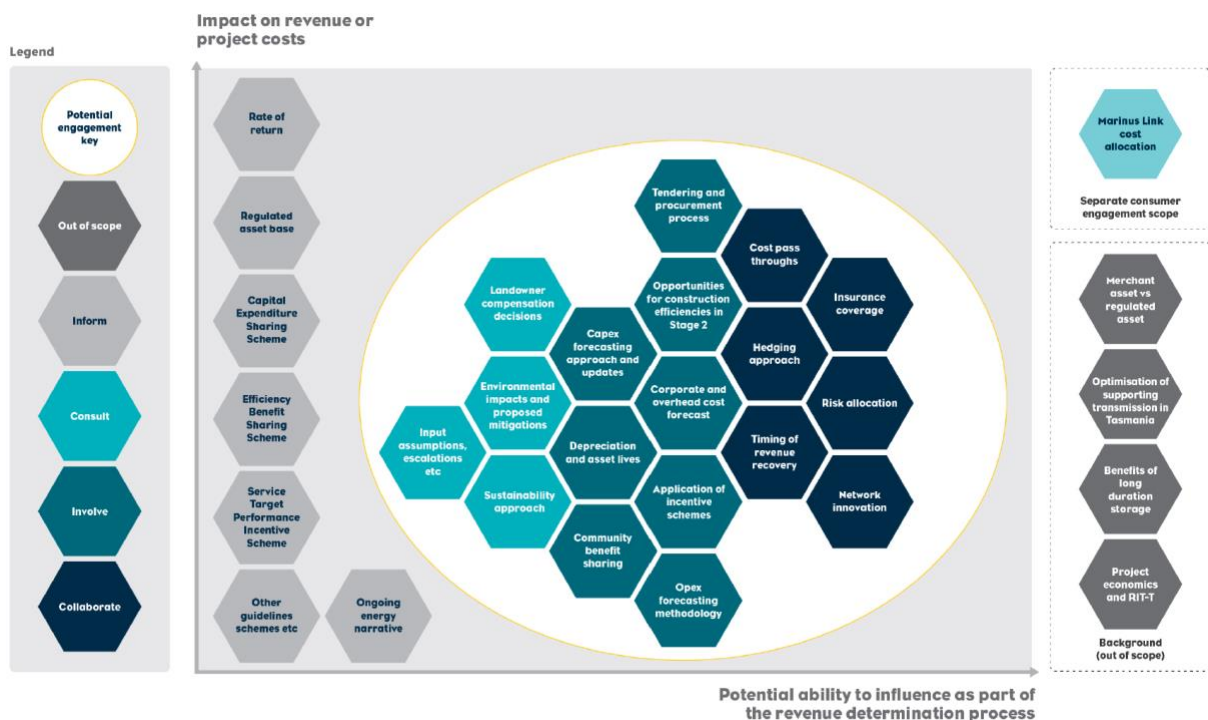
Marinus Link CAP Engagement Process Report

areas of the revenue proposal process where Marinus Link believes consumers may have the most influence. A larger copy of this diagram is shown at Attachment 2 of this report.

This diagram highlights those elements of the project which are clearly not able to be influenced during the engagement process, including the rate of return, the regulated asset base, the capital expenditure sharing scheme, efficiency benefit sharing, service target performance incentives, and the on-going energy narrative. In relation to these elements the engagement process would only seek to inform consumers.

It also highlights a range of issues which are out of scope of the engagement process including whether or not Marinus Link would be a regulated asset, the optimisation of supporting transmission infrastructure within Tasmania, the benefits of long duration storage and the project's economics and the RIT-T process.

The remaining issues were considered by Marinus Link to be able to be influenced by the engagement process to varying degrees.



Critical to the consumer engagement process have been a roundtable series and also a series of CAP deliberative workshops.

Marinus Link Roundtable Series

The Marinus Link Roundtable Series provided stakeholders with the information they need to engage on the revenue proposal in an informed way. They introduced the project in greater detail than what was reported generally in the media and covered some of the topics which a workshop in November 2021 identified the need for additional information.

Roundtables have been hosted online and have sought to replicate an in-person roundtable environment, with an initial presentation followed by the opportunity for open questions and discussion.

The CAP was able to influence the indicative Roundtable Series schedule and CAP members were able to choose which sessions they attended based on their interest and relevance.

The AER was also invited to observe the roundtables.

CAP deliberative workshops

CAP members were invited to participate in a series of deliberative workshops which had the aim of in depth consideration of specific issues. These workshops sought to provide the CAP with an understanding of the challenges and opportunities for Marinus Link and permitted views and opinions to be shared.

These workshops have permitted Marinus Link to collaborate with the CAP on various issues facing the project and over which it was considered consumers had an influence. Prior to each workshop CAP members received preparatory material and had the opportunity to submit questions or requests for further information. Workshop summaries were also circulated to the CAP for review and comment before they were finalised

As with the roundtable series, the AER was invited as an observer.

3. The CAP's Assessment of its Engagement with Marinus Link

In assessing the Marinus Link engagement process the CAP has provided the following comments on specific elements of the engagement process. These elements seek to cover the breadth of consumer engagement as outlined by the AER Better Resets Handbook.

The CAP has been especially appreciative of the independent facilitation role provided by RPS and the staff from that company which have overseen and managed the consultation process.

a) Educating the CAP members about Marinus;

- Marinus Link, together with RPS, have been extremely helpful in educating the CAP about the Marinus Link project. Through the various forums they have been more than obliging to accommodate requests from the CAP for further information on specific aspects of the project. As a result of the CAP process, we consider that the inclusion of subject matter experts from Marinus Link has been an important extension to the consultation. The inclusion of subject matter experts has extended the range of topics considered and the depth of information provided and discussed. Their engagement with the CAP has more effectively accommodated the different levels of understanding across the CAP members.
- The information provided by Marinus Link has been extremely helpful in gaining a deeper understanding of both the project as a whole, including the multiple significant parts of the project and the milestones which Marinus Link is seeking to

meet. In particular the information provided has permitted the CAP to understand the boundaries of Marinus Link as a project and its relationship to transmission developments within Tasmania such as the North West Transmission Development (NWTD) project.

- The presentation slides used by Marinus Link staff, together with information papers and responses to questions have been welcome and informative. They have aided the CAP in increasing its understanding of the project.
- Marinus Link have been open to questioning on the project and the CAP has found the information which has been provided has been appropriately detailed.
- Given the cross jurisdictional impact of Marinus Link, the CAP has welcomed membership from multiple jurisdictions. This has enhanced the CAPs understanding of potentially differential impacts from the project in different jurisdictions.
- To a degree Marinus Link has not been able to adequately provide the CAP with information relating to cost allocation across jurisdictions beyond the initial political statements made by the Tasmanian Energy Minister. Such considerations are considered by the CAP to be important elements of any rule changes which may be sought by the project.

b) The affordability of Marinus;

- The affordability of Marinus Link is a critical issue for the project. Given its significant cost, and the current approach to cost sharing within the NEM, the CAP has expressed concerns about the impact of the project on low and fixed income Tasmanians. The CAP is extremely concerned that Tasmanians in general, and this cohort in particular, are not left with higher power costs given how costs are apportioned for existing inter-connectors. The CAP feels that this issue has not been fully detailed apart from Marinus Link repeating statements made by the Tasmanian Energy Minister in regard to Tasmania only incurring 15% of the Marinus cost. To date there has been silence from Marinus Link in relation to cost apportionment beyond this 15% for Tasmania.
- The CAP is also concerned at the lack of detail provided around statements made in relation to consumers being better off overall as a result of Marinus Link. Such statements are highly dependent upon the assumptions made relating to the actual capital cost of the project and on the impact a project such as Marinus Link may on wholesale electricity prices within the NEM. The CAP has concerns regarding the double counting of such benefits as additional inter-connectors are constructed. In such an environment assigning wholesale electricity price reductions to a particular infrastructure element is problematic to say the least.
- Similarly, Marinus Link has been unable to provide the CAP with economic/consumer benefit analysis beyond base case scenarios. For example, the CAP was interested in seeing sensitivity analysis associated with the project cost being significantly higher

than the original budget, or if the build out of new generation on either side of the connector varied from the base case.

- The information provided to the CAP by Marinus Link on the risks associated with current cost and benefit estimates has been limited to date.
- The CAP considers that the affordability of Marinus Link will remain subject to the assumptions being made and that more detail regarding those assumptions is required. While there is significant information within the RIT-T, this is now out of date, and that analysis does not extend to the impact of Marinus Link on specific consumer cohorts across the broad range of consumers, including the small to medium business sector and major industrial customers who are significant consumers of electricity, and also across the jurisdictions who will likely benefit from Marinus.
- In particular, the CAP would like to have a better understanding of how costs will be shared and how the benefits of discounted financing provided to Marinus Link will be passed through to the various consumer cohorts and how that affects affordability for Tasmania.
- The CAP is concerned these risks have not been adequately documented, but considers that the application of Rewiring the Nation funding and the tri-jurisdictional ownership model provides an appropriate way for these risks to be addressed.
- The CAP also recognises there is uncertainty around the cost relationships between Marinus Link and NWTG, which is being separately considered within the TasNetworks reset framework.

c) The costs and benefits of Marinus;

- The CAP considers that while the benefits of Marinus Link have been reasonably documented in reports such as the Marinus Link RIT-T, the conjecture regarding the allocation of costs and fairness of that allocation for Tasmanians remains opaque and of concern to consumers. For example the full costs of NWTG, an integral component of Marinus Link, and also an upgrade to the Tasmanian transmission network, will be borne by Tasmanian consumers alone as a result of an increase in the TasNetworks regulated asset base (RAB) and it is unclear whether any concessional funding is available to this element of the project to reduce the cost impact on Tasmanian consumers.
- As documented within the RIT-T, the vast majority of Marinus benefits flow beyond Tasmania. However, over the period since the CAP was engaged even these estimates of benefit allocation have varied and the underlying reasons for such variation have not been adequately documented for the CAPs information and consideration. The CAP remains concerned that there may be an unfair risk and cost burden for Tasmanians households, small to medium enterprises and major industrial consumers.

- The CAP has concerns that Tasmanian consumers may not be receiving the full benefit that 100 years of hydro-electric development in Tasmania can provide to the NEM which is increasingly dominated by intermittent renewable generation.
- Some of the benefits of Marinus Link are likely to end up being captured by generators within the NEM, particularly those who are able to take advantage of having low cost storage, such as Hydro Tasmania. The CAP notes that even those these benefits may be captured by generators, they are not required to pay transmission fees, leaving it to charges levied upon consumers to fund the project. How such benefits may be offset against the transmission costs incurred under the current national regulatory environment remain unclear to the CAP.

d) How the engagement process has addressed risk;

- The CAP considers that the engagement process has provided a good understanding of Marinus Link's risk appetite. Understanding the risks of the project has been a significant learning curve for the CAP and we have been appreciative of the efforts made by Marinus Link staff to document and present the risks to the CAP. In particular the engagement team (both RPS and Marinus Link staff) has responded in a timely fashion to issues raised by the CAP and provided information which has largely been appropriate in relation to the detail sought.
- The CAP has noted that Marinus Link is not prepared to take on much risk with the project and is seeking to pass the majority of the project risk to the various project vendors where possible. The CAP has also noted that Marinus Link recognises that there is an "insurance" cost when such risks are transferred to the vendors. As examples, the CAP has noted project vendors taking on the risk of deliverables by being accountable for supply and installation of specific components, and that asset risk is being covered off by ensuring the best suppliers in world are the only ones being offered supply through an effective pre-tender process.
- The CAP acknowledges the approach taken by Marinus Link to include an independent representative of the CAP within the tender evaluation process and the lengths which Marinus Link has taken to ensure an appropriately skilled person has been selected independent of Marinus Link for this task.
- The CAP does, however, remain concerned that Marinus Link is a huge project with many complex elements. Understanding and addressing all the elements of risk is a major challenge for a layperson consumer representative. The CAP considers that Marinus Link made good attempts to identify, raise and address risk for the CAP, but given these complexities the engagement process will never be able to fully address and/or resolve many of the project risks.
- The Cap considers that the engagement process has resulted in Marinus Link being more open and transparent in relation to the various risks of the project and this transparency has perhaps improved the mitigation strategies eventually adopted by Marinus Link.

e) The culture of Marinus Link Pty Ltd and its attitude to engagement;

- The Cap considers that Marinus Link understands the importance of the consumer engagement process to its essential success, particularly in gaining the necessary social licence within the various jurisdictions and across the various affected cohorts. The CAP considers that Marinus Link has sought to undertake its engagement in a highly professional manner and has engaged openly and genuinely.
- Marinus Link has facilitated CAP meetings to provide project updates, flag issues and report on milestones as and when required. It has arranged meetings in such a manner that CAP members can either be present in person or attending on-line. Its use of on-line meetings has facilitated closer involvement with the CAP than would have otherwise been available had it been restricted to in person meeting alone. This process has ensured cross jurisdictional and also regional involvement in the CAP process.
- Throughout the engagement process Marinus Link has been open and willing to answer questions and provide further information in response to queries. Such information provision has been limited in areas which have been outside the direct control of the Marinus Link team, such as issues relating to direct consumer impacts and political decisions around cost allocation.
- The Cap believes that Marinus Link, as a new organisation, has been able to develop a culture of openness and has sought to engage to its maximum potential.

f) The extent to which you felt your involvement in the engagement process has made a difference;

- The CAP has a somewhat mixed view in relation to how its involvement has made a difference.
- Marinus Link has not explicitly documented where the CAP's input has altered its a priori assessment of particular issues and some members of the CAP feel that their individual contributions have had limited impact. Others consider that the presence of the CAP has resulted in Marinus Link being more open and transparent in relation to issues relating to Marinus Link than would have otherwise been the case in the absence of the CAP.
- Members of the CAP certainly appreciated being well informed on the project and briefed on the various stages of the project. This has given them an understanding of the project's magnitude and where assessment and implementation may be at any given point in time.
- Some CAP members consider that their involvement has helped inform the project and overall the presence of the CAP will have been seen to have assisted various aspects of the project navigate their way through the consultative processes associated with the project.

- The CAP considers that its input may have positively ensured a closer focus to ensure local involvement in the project's construction and will result in maximum benefit flowing to local communities at either end of the link.
- An explicit example of the CAP's involvement has been to have a procurement adviser appointed. This appointment has provided the CAP with a welcome level of comfort of that consumer interests are expertly represented during the tendering process. The CAP considers that this offers an extra degree of comfort for consumers over and above that provided by a probity advisor.
- The CAP considers that there is a need for Marinus Link to more fully document where and how input from the CAP has led to an adjustment in its approach to engagement with consumers and the project more generally. Such documentation would clarify the value of the CAP to the project and the benefits the existence of the CAP has had on improving project outcomes in terms of cost, timeliness, consumer acceptance and any other relevant issues.

g) The willingness of Marinus Link staff to provide information and address questions raised;

- Members of the CAP have found Marinus Link very willing to provide information and address questions relating to issues raised during the engagement process. Information which has been provided has tended to positively address the issue and usually it has been well presented.
- Where appropriate Marinus link has brought in the subject matter experts to inform the CAP. Throughout the process the CAP has found Marinus Link to be quite open and the subject matter experts have generally been responsive to the views put by the CAP.
- CAP members willingly accepted and signed confidentiality agreements. The CAP considers that this action has given Marinus Link greater confidence to share sensitive information with the CAP. The existence of the confidentiality agreements has also permitted the CAP to have greater trust in the information being supplied by Marinus Link and avoided Marinus Link having to constrain the information being provided for commercial in confidence reasons.
- Overall, the CAP considers that this has resulted in a better two-way trust and has permitted the CAP to be more informed about the project. The CAP has found the Marinus Link team good to work with and the relationship has been strong over the period during which the CAP has been engaged.

h) Any other items you may also wish to comment upon.

- The CAP considers there is still a lack of understanding of the project specifics in the broader community and limited engagement with Marinus Link outside those communities of interest directly affected by Marinus Link and its associated developments, such as NWT, at this point in time. In this regard the CAP feels that

communication, engagement and transparency around the case for Marinus, especially the benefits and the direct consumer impacts, will need to be ramped up over the next 12 months.

- In particular, given recent concerns with increasing energy costs the CAP thinks that Marinus Link will need to develop a strong case to demonstrate clearly how the costs and benefits of Marinus Link will flow. The current approach taken by Marinus Link to simply provide a net benefit figure will be insufficient moving forward and Marinus Link will need to demonstrate how benefits will result from the project.
- The CAP feels that, given the experience of consumers to date of promises of lower absolute energy costs as given under the Powering Australia policy of the Commonwealth Government, consumers are now more reluctant to simply take on trust the idea that projects of the scale of Marinus Link will deliver lower energy prices overall. Consumers are also becoming increasingly aware how the costs of transmission projects are incorporated into their individual bills.
- The CAP also considers that post covid the population seems more edgy and cynical of those in power, including large corporations, and less trusting of promises being made. This change, together with significant international uncertainty, and also uncertainty within the Tasmanian political environment, will make it increasingly hard for projects such as Marinus Link to gain the necessary social licence to proceed. The CAP considers that these broad ranging risks must be managed by Marinus Link and not left to fester and impact on the project's eventual fate. We have seen just recently how quickly governments can change their mind in relation to major projects as evidenced by the recent Victorian experience with the Commonwealth games.
- By building on the good work done to date the CAP considers that Marinus link will be able to meet these communication and consultation demands from consumers and gain the necessary support the project will need from consumers and other stakeholders. As the project moves forward the CAP believes the consultative effort of Marinus link will need to be maintained at a high level and not relaxed as the project moves into the construction phase.

4. The CAP's Support for the Draft Proposal

The CAP feels the process has been open and honest. It has been well managed through RPS. As the Marinus Link team has grown and evolved, the CAP has remained well informed and kept up to date.

The critical issue for Marinus Link will always be who pays and how much.

In relation to the Section A – Early Works draft proposal, the CAP feels it can support what is being presented to the AER. We consider that the information supplied to the CAP in relation to each element of the Early Works proposal has been well explained by the various subject matter experts who have presented to the CAP. The information provided has been

very comprehensive and where more detail was sought by the CAP it has been readily provided.

The development of the Section A – Early Works draft report has felt like a partnership from the CAP's perspective and the CAP has been pleased with how Marinus Link has:

- a) sought to provide the Section A – Early Works draft proposal separate from the full revenue proposal; and
- b) engaged with the CAP in its preparation.

5. Concluding Comments and Recommendations

In conclusion the CAP considers that the nature of the engagement it has had with Marinus Link has been sincere. We consider that over the period for which the CAP has been engaged a partnership has developed between the CAP and Marinus Link. As time has progressed the engagement with the CAP has improved.

We consider that Marinus Link has sought to better equip customers with information about the project through its engagement activities. However, the CAP considers the actual consumer impact of the project remains quite opaque.

The processes adopted by Marinus Link has been accessible with Marinus Link maximising the opportunity for the CAP to be involved. Information provided has been clear and relevant to the audience and the objectives of engagement and the engagement process itself has been highly transparent.

The CAP has concerns on the extent to which consumers are able to influence the project. This aspect of the process is particularly concerning as under the current regulatory arrangements the eventual cost of Marinus Link will flow through to consumer bills. The CAP considers this has implications for accountability for Marinus Link once the revenue process has been completed and a determination made. The CAP considers that the AER may be constrained in terms of how it may determine revenue allocations between jurisdictions and also consumer classes from a project such as Marinus Link.

The CAP considers this is an important issue for the AER as further inter-connectors are developed across the NEM which are likely to provide benefits to other players within the system such as generators who are distant from the current NEM or have constrained access to the NEM which impacts on their current ability to participate in the NEM.

At this point the CAP is somewhat unclear of the impact it has had, although it can point to some specific examples as identified above. The CAP does, however, feel that the support for Marinus Link within the NEM and also related political support is currently over-riding concerns which are likely to arise should the cost of Marinus Link increase beyond the already established range.

The CAP considers that to the extent possible Marinus Link have engaged in a manner which is consistent with the Better Reset Handbook.

There are however two areas where significant improvement is required. These areas are:

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- The provision of better and more detailed information on the direct consumer impact of Marinus Link and the clear annunciation of the assumptions underlying that assessment. This would include information across the range of consumer types and also the differential jurisdictional impacts, including explicit identification as to how concessions, such as discounted borrowing costs, flow to consumers; and
- A clear statement as to how the engagement of the CAP has influenced Marinus Link in its engagement, assessment, tendering, design and implementation processes.

Attachment 1 CAP Purpose (Extracted from the CAP Terms of Reference)

The Marinus Link Consumer Advisory Panel (CAP) will provide the key forum for engaging National Electricity Market (NEM) customers on the Marinus Link Revenue Proposal.

The CAP aims to be broadly representative of NEM customers. Its purpose is to:

- Provide consumer representatives with a real opportunity to participate in the Marinus Link Revenue Proposal, especially on elements where consumer feedback can have the greatest impact.
- Provide a forum for members to raise questions and concerns on behalf of the consumers they represent.
- Help Marinus Link to ensure that consumers' views and preferences are reflected in the revenue proposal.

The CAP is an advisory body only and does not have any independent decision-making authority in relation to the Revenue Proposal.

From time to time the CAP may be asked to provide feedback on other matters relating to Marinus Link.

Attachment 2 Areas of potential influence

