



Marinus Link Pty Ltd  
PO Box 606 Moonah  
Tasmania  
Australia 7009

16 February 2024

Anthea Harris  
Chief Executive Officer  
Australian Energy Regulator  
Level 17 Casselden 2 Lonsdale Street  
Melbourne VIC 3000

Dear Ms Harris,

**Re: Marinus Link – Request to update the Commencement and Process Paper**

I am writing to you to request an update to the AER's Commencement and Process Paper for the revenue determination for Marinus Link Pty Ltd (MLPL), which the AER published in June 2023.<sup>1</sup> In addition to covering these proposed changes, I also provide some further information on our RIT-T update, noting that we shared a draft report with AER staff prior to Christmas.

This request is being made in accordance with clause 6A.9.3(f) of the National Electricity Rules (the Rules), which provides that the AER may, on the application of the relevant Intending TNSP, amend a commencement and process paper if the AER is satisfied that circumstances have arisen such that the amendment is reasonably necessary. The circumstances that warrant an amendment are:

- The feedback from our Consumer Advisory Panel (CAP) is that they would like further engagement as updated cost information becomes available.
- The competitive tender processes remain on-going and will not be completed before 28 February 2024, being the intended submission date of MLPL's Revenue Proposal – Part B (Construction costs).
- There has been a delay in the forecast commissioning date for the first cable and the optimal timing of the second cable remains under consideration.

As explained below, these circumstances have led us to propose the following three changes to the Commencement and Process Paper which we consider will provide a more effective regulatory process for all parties, including consumers and stakeholders.

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<sup>1</sup> AER, Decision: Transmission Determination Commencement and Process Paper, June 2023.

## Proposed amendments to the Commencement and Process Paper

Our proposed amendments to the Commencement and Process Paper are:

1. To delay the submission date of the Revenue Proposal – Part B (Construction costs) to 15 July 2024. To avoid compressing the AER’s review process, however, MLPL also proposes to submit a draft Revenue Proposal by April / May 2024 that fully addresses the Rules requirements, so that the AER is able to proceed with its review process. Importantly, the draft Revenue Proposal will:
  - Provide clarity on those expenditure components of the draft Revenue Proposal that would be updated to reflect new information from the competitive tender processes; and
  - Enable more extensive consultation with consumers and stakeholders in advance of submitting the formal Revenue Proposal by 15 July 2024.
2. To extend the first regulatory period from 3 years to 5 years, so that it applies from 1 July 2025 to 30 June 2030. This 2 year extension to a standard 5 year approach will dovetail with the likely timing of cable 1, which is expected to be commissioned in late 2030. This proposed change has the following advantages compared to the current 3 year period:
  - MLPL will submit its Revenue Proposal for the second regulatory period in January 2029 (as opposed to January 2027), at which time it will have a better estimate of the actual costs of delivering stage 1. The later submission date means that the AER’s revenue determination will be able to consider more accurate information regarding MLPL’s actual costs of delivering cable 1; and
  - MLPL will begin to recover revenue from electricity customers when transmission services commence. By deferring the start of the second regulatory period to 1 July 2030 (from 1 July 2028), all parties will have greater certainty regarding the date for the commencement of network charges.
3. Treat the second cable as a contingent project, which reflects the current uncertainty regarding the timing of the second cable. MLPL notes that AEMO’s draft 2024 ISP indicates that cable 2 is needed in 2032, in which case an early works Contingent Project Application (CPA-1) would be lodged during the 2025-2030 regulatory period. A second CPA (CPA-2), which would address the construction costs of cable 2, would be lodged 1 or 2 years after the submission of CPA-1. The benefits of this approach are:
  - It provides for a standard regulatory approach to managing uncertainty regarding the costs and timing of large infrastructure projects; and
  - It ensures that the AER has accurate information regarding the costs of delivering cable 2, which can be taken into account in setting MLPL’s revenue requirements.

MLPL proposes that CPA-1 for cable 2 would be subject to a trigger event, which would focus on AEMO’s assessment of the optimal timing of cable 2 in a future ISP, such as 2024 ISP, 2026 ISP or 2028 ISP confirms that early works in relation to cable 2 should proceed as soon as practicable.

In our view, the three changes described above would provide for a more workable approach to the next phase of MLPL’s revenue setting process. In particular, the proposed approach would provide a transparent process for capturing the outcomes from the competitive tender process while promoting on-going engagement with consumers and stakeholders.

The MLPL board has considered and approved these proposed amendments. The amendments to the timing of the revenue proposal had been endorsed and discussed in draft with AER officers during January 2024, and were approved by the MLPL board on 16 February. The MLPL board had previously approved the other proposed amendments.

**Proposed timelines and framework for the Revenue Proposal**

Figure 1 below provides an overview of the proposed amended timeline for the revenue determinations for Stage 1, which comprises Part A (Early works) and Part B (Construction costs), and Stage 2. It also shows the proposed duration of the first and second regulatory periods, with the key point being that cable 1 will be delivered close to the proposed commencement of the second regulatory period.

**Figure 1: MLPL’s regulatory periods and revenue determination timelines**

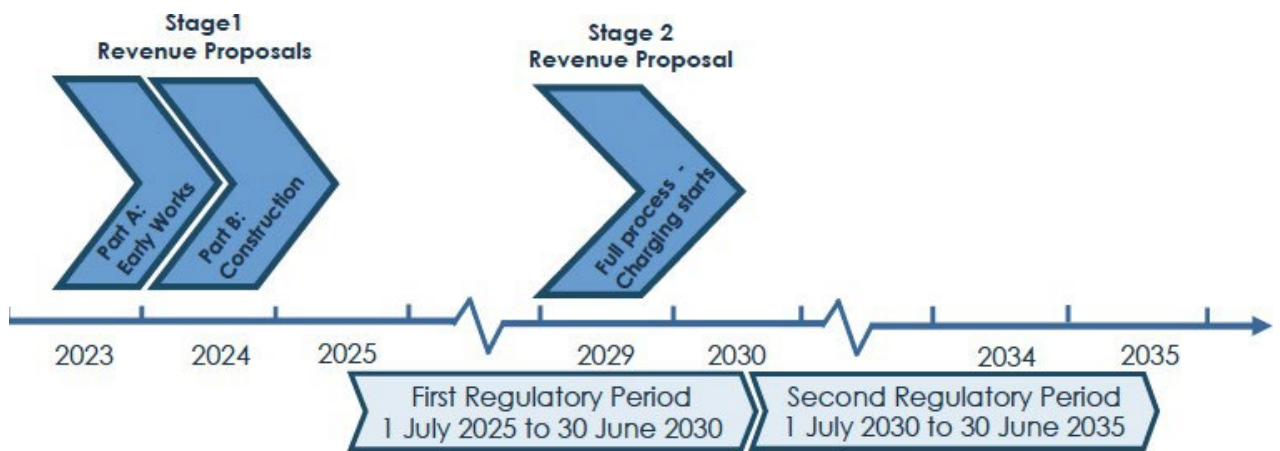


Figure 2 shows the proposed timeline for April 2024 to December 2024, which includes the submission of MLPL's draft Revenue Proposal by April / May 2024 and the formal submission of the Revenue Proposal by 15 July 2024. The intervening period provides for stakeholder engagement and further refinement of the expenditure forecasts.

**Figure 2: Proposed timeline for draft Revenue Proposal**

<u>April 2024</u>	<u>April/ May 2024</u>	<u>May 2024</u>	<u>31 July 2024</u>	<u>Aug - Oct 2024</u>	<u>30 Nov 2024</u>	<u>December 2024</u>
Project Marinus Feedback loop submitted to AEMO	MLPL submits 'draft' Revenue Proposal - Part B (Construction costs)	Project Marinus Feedback loop confirmed by AEMO	MLPL submits Revenue Proposal - Part B (Construction costs)	AER/MLPL consultation process - Part B (Construction costs)	AER publishes Draft Decision - Part B (Construction costs)	MLPL makes Final Investment Decision

Based on the latest information from our tender processes, MLPL’s expectation is that:

- MLPL’s draft Revenue Proposal, submitted by April / May 2024, will include firm cost estimates for majority of the total project costs. In addition, MLPL will submit cost estimates (validated independently) for the remaining expenditure. In addition, MLPL will provide detailed information on its procurement process, explaining why the approach adopted is expected to achieve prudent and efficient expenditure in accordance with the Rules. MLPL therefore considers that the AER will be able to commence its review based on the information submitted in the draft Revenue Proposal.
- MLPL’s Revenue Proposal, submitted by 15 July 2024, will confirm the costs for the cables, converter stations and corporate costs, and provide updated independently validated cost estimates for the land cables civil works and managing contractor costs. MLPL considers that this information, together with the earlier submission of the draft Revenue Proposal, will enable the AER to publish its draft decision by 30 November 2024. MLPL’s final investment decision in December 2024 will be based on the AER’s Draft Decision.

Figure 3 shows the proposed timeline following the AER’s draft decision through to its final decision in April 2025. MLPL’s expectation is that all competitive tendered prices will be provided for inclusion in MLPL’s revised proposal, which would be submitted by 15 January 2025, with the civil works and managing contractor tender prices planned to be available shortly after the AER’s Draft Decision in November 2024.

**Figure 3: Proposed timeline from the AER’s draft to final decision**

<u>Dec 2024 - Jan 2025</u>	<u>Dec 2024 - Jan 2025</u>	<u>15 Jan 2025</u>	<u>15 April 2025</u>	<u>1 July 2025</u>
AER consultation and stakeholder submissions on Draft Decision	MLPL consults on Revised Revenue Proposal - Part B (Construction costs)	MLPL submits Revised Revenue Proposal - Part B (Construction costs)	AER makes Revenue Determination - Part B (Construction costs)	First regulatory period commences

In developing the above timetable, we have had regard to the following objectives and milestones:

- To ensure that the AER has sufficient time to conduct a thorough review of MLPL's proposed construction expenditure to assess its prudence and efficiency;
- To provide opportunity for effective stakeholder and consumer engagement throughout the review process; and
- To ensure that a draft decision is made by the AER in November 2024 so that it can inform the final investment decision in relation to Marinus Link, which is scheduled for December 2024.

## RIT-T Update

As you know, the National Electricity Rules require that the RIT-T must be reapplied, unless otherwise determined by the AER, if there has been a material change in circumstances which, in the reasonable opinion of the RIT-T proponent, means that the preferred option identified in the Project Assessment Conclusions Report (PACR) is no longer the preferred option.

MLPL has been proactive in verifying whether the preferred option in the PACR remains unchanged. To assist us in forming an opinion on this issue, EY has been engaged to assist in updating the RIT-T by modelling the project benefits, using the latest available data. Since sharing our provisional assessment with AER staff, AEMO has published its draft 2024 ISP which confirmed that the project should proceed as planned, i.e. the first cable should be delivered as soon as practicable, while the optimal timing of the second cable remains under consideration.

Our PACR concluded that the preferred option is a 1500 MW link to be completed in two stages, with the timing of the second cable to be determined by AEMO's future ISPs.

While the RIT-T update has not yet been finalised, our initial formed opinion is that the preferred option remains unchanged. Our proposed next steps to complete this work are as follows:

- 1. Notice to stakeholders on our intention to update the RIT-T – done on 9 February 2024.** We have published on MLPL's website a notice explaining that we are updating the RIT-T analysis and intend to publish it for comment by end-March 2024.
- 2. Submission to AER by 29 March 2024.** We intend to finalise our RIT-T update report and formally submit it to the AER. In this report, we will also explain the rationale for our view that the preferred option remains unchanged.
- 3. Stakeholder feedback sought by 3 May 2024.** Our RIT-T update report will be published, and we will invite stakeholder feedback.
- 4. Feedback loop request in April 2024.** In updating our RIT-T report we will work closely with AEMO and provide any updates to our cost estimates. We expect to submit a feedback loop request to AEMO in April 2024.

We hope you find this approach acceptable. As already noted, MLPL has taken a proactive approach to meeting our obligations under the Rules. If you have any questions regarding our approach, please do not hesitate to contact me.

MLPL welcomes the AER's consideration of this request to amend the Commencement and Process Paper, and we appreciate the constructive approach taken by the AER in accommodating MLPL's unique

circumstances within the constraints of the regulatory framework. If you would like a meeting to discuss the matters raised, please contact me at [REDACTED] at your earliest convenience.

Yours sincerely,

[REDACTED]

Caroline Wykamp  
Chief Executive Officer