TasNetworks
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Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

CC: rateofreturn@aer.gov.au

Dear Mr Anderson

Rate of Return - Draft Debt Omnibus Paper

TasNetworks welcomes this opportunity to comment on the Draft Debt Omnibus paper[1], which is one of three papers published by the AER as it prepares its information paper on the 2022 Rate of Return Instrument. As a member of Energy Networks Australia, we support its submissions on the omnibus papers. The purpose of this submission is to highlight specific issues that may be relevant to Marinus Link.

As you know, Marinus Link is a proposed 1500 megawatt capacity High Voltage Direct Current (**HVDC**) undersea and underground electricity connection to further link Tasmania and Victoria as part of Australia's future electricity grid. Marinus Link will be supported by transmission network developments as part of TasNetworks' strategic plan for North West Tasmania. Collectively, Marinus Link and the North West Transmission Developments are called Project Marinus. Project Marinus is included as an actionable project in AEMO's 2020 Integrated System Plan (**ISP**) and has passed the Regulatory Investment Test for Transmission (**RIT-T**), with a 1500 MW project, comprising early works, and two 750 MW stages, maximising net benefits to the energy market.

It is likely that a newly formed Transmission Network Service Provider (**TNSP**) will own the Marinus Link HVDC and converter assets and will be regulated under Chapter 6A of the National Electricity Rules. In the context of the AER's future arrangements for establishing a benchmark cost of debt, the financial characteristics of Marinus Link as a 'single project' TNSP should be given careful consideration. The North West Transmission Developments component of Project Marinus will also represent a material capital investment in the context of the existing depreciated regulatory asset base for TasNetworks. TasNetworks therefore considers it essential that the AER's 2022 Rate of Return Instrument is 'fit for purpose', not only for existing TNSPs but also for new TNSPs.

[1] Australian Energy Regulator, Rate of Return, Draft Debt Omnibus Paper, July 2021.

The Draft Debt Omnibus paper considers two issues that are pertinent to TasNetworks as the developer of a large ISP project, and to a new TNSP, such as Marinus Link:

- Whether it is appropriate to adopt an annual cost of debt weighting according to the TNSP's capital expenditure, rather than assuming that 10 per cent of a TNSP's debt is refinanced each year.

- Whether the AER should make use of actual debt costs in setting a benchmark cost of debt allowance. In considering this issue, the AER noted that the Energy Infrastructure Credit Spread Index was developed using actual debt data obtained from Network Service Providers.

For established TNSPs, a weighting based on capital expenditure would better recognise the lumpy nature of large ISP projects than the current approach. However, a capital expenditure profile that is dominated by a single project may make it challenging in the future to replicate a trailing average approach that uses a 10-year timeframe.

A newly established 'single project' TNSP may have a debt profile that is radically different from its peers (for example, different debt terms / risk profiles). Accordingly, a newly established TNSP may be systematically advantaged or disadvantaged by an approach to setting a benchmark cost of debt that is based on an industry benchmark. A similar circumstance may occur for an existing TNSP which embarks on delivering an ISP project which may be large in comparison to its existing asset base.

TasNetworks acknowledges the challenge of developing a benchmark cost of debt allowance that achieves the NPV=0 principle and accounts for the different circumstances of each TNSP. Having said that, we consider it important that the AER carefully considers the particular issues that may arise in relation to a newly established TNSP and large ISP projects in general, so that its 2022 Rate of Return Instrument is fit for purpose.

The issues related to financing large ISP projects have also been acknowledged by the AEMC in its Transmission Planning and Investment Review consultation paper. While the extract below (pp 40-41) is in the context of a contestable large project, the same broad considerations (with bolding for emphasis) are also relevant to a newly formed TNSP with a large project to deliver:

> The Commission also recognises that some individual ISP projects will be attractive to a TNSP and others will not, given some projects may face greater or lesser project specific risk. In circumstances where projects are put out to competitive tender they will **not be funded in the context of an existing RAB or under existing regulatory arrangements**. Such projects are **standalone and need to be considered in the context of the efficient standalone project financing.** Financeability may therefore be a relevant consideration for bidding parties in setting the proposed funding arrangements for what they tender. On this basis, the Commission considers there may be scope to consider aspects of financeability in the context of the competitive provision of transmission projects. It notes that this is a different issue to the financeability of a benchmark efficient TNSP.

We look forward to working with the AER as it further develops its thinking on the cost of debt and the 2022 Rate of Return Instrument. If you would like to discuss this submission further, please contact Heath Dillon in the first instance, on [redacted] or [redacted].

Yours sincerely

[redacted]

Bess Clark
General Manager
Marinus Link