

21 November 2024



Cleaner.
Smarter.
Diverse.

Mr Arek Gulbenkogl
General Manager
Network Expenditure
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

P.O. Box 393
Burnie Tas 7320
Phone: 03 6419 4122
Mobile: [REDACTED]
Email: [REDACTED]
Website: www.tmec.com.au

Via email : contingentprojects@aer.gov.au

Dear Sir,

RE: TasNetworks' NWTB Stage 1 early works contingent project application

The Tasmanian Minerals, Manufacturing and Energy Council (TMEC) welcomes the opportunity to provide this submission in relation to the North West Transmission Development (NWTB) Stage 1 early works contingent project application. TMEC would like to firstly acknowledge the engagement TasNetworks has had with its membership over the recent period in preparation for this proposal. Noting TMEC had a representative on the previous TasNetworks Reset Advisory Council and now the Stakeholder Advisory Group.

TMEC has focused this submission on matters that are pertinent to its membership base and what it believes is in the best interest of all consumers.

About TMEC

TMEC's membership base represents an important wealth creating sector within the Tasmanian economy. The combined minerals and manufacturing sector employs 18,484 people and contributed \$2.795B in exports in the 22/23 FY. Most of our members are based in regional areas of Tasmania and therefore provide critical employment opportunities away from public funded employers.

Background

The contingent project application of \$150M as per RIT-T must pass the market benefits test where consumers must be better off. This is difficult to understand how the AER can test this when the objective of the early works is to firm up the cost estimate of the overall project, current estimated at around \$950M.

What is the outcome if the \$150M expenditure (if approved) demonstrates the project is not in the interests of the consumer?

Also, it is not clear as to what level the concessional finance will be used to lower the cost to end customers.

TMEC's submission is framed around the context of the two customer profiles which make up industrial and commercial entities - direct connected (energy intensive) and retail commercial.

Comments on Project Application

For TMEC's direct connected customers who are not exposed to wholesale pricing due to long term energy supply contracts, NWT D is seen as a cost impost to their business. The only result for this class of customer, without an intervention is an increase in delivered energy price. None of this increase can be passed onto their end customers as they are competing in a global market.

TMEC can not identify how direct connected customers will be better off – unless there is an additional action taken.

If an existing energy intensive industry were to close due to unaffordable electricity prices, the load the industry returns to the state capacity may make NWT D and even Marinus Link become surplus to needs for many years – pushing out the timing considerably.

Furthermore, distributing the total network costs over a materially smaller consumer base will be dire for the state and would attract significant financial intervention. Therefore, the undermining of viability for existing direct connected customers due to NWT D project must be avoided - for the benefit of all customers and stakeholders.

TMEC understands the intent behind capacity upgrades of network assets is ultimately to have the higher net costs distributed amongst proportionally more load and therefore the network costs are considered affordable.

The issue is how will the costs be recovered in the interim period between existing load demands and the period where new load demand is being transmitted by the assets?

The narrative which both the federal and state governments use clearly state the lower wholesale price, due to supposed low-cost renewables entering the market which is offset by the increased network costs.

What the narrative overlooks is the additional generation and storage assets, which require a financial return, being added to the total cost of delivered and reliable electricity. All indications to date in Australia and overseas show substantial electricity price increases are being locked in because of the electricity transformation underway in Australia and overseas.

To gain support for this contingent project application TMEC would be seeking the establishment of an interim cost neutralisation mechanism for customers potentially exposed to significant cost increases. The mechanism would ensure existing direct connected customers are not burdened by the investment needed for the next generation of electricity consumers. The existing direct connected customers have underwritten more than their fair share of the network - many times over and it would be in the interest of the state to ensure existing customers are not put out of business due to the cost increases.

Funding the interim cost neutralisation mechanism will clearly need a fulsome consideration given that the rules TasNetworks operates by may be restrictive, but the owner (State Government) may need to exercise some discretion. TMEC acknowledges the AER approves the maximum TasNetworks can recover which does allow TasNetworks to consider internal means to shield existing direct connected customers.

For TMEC's retail customers who are subject to wholesale price changes, conditional support of the application is based on what the final cost of the project will be and what their delivered energy price will be in the future, being less than what they currently pay. At this point of the submission, it is not understood what that modelled number will be.

TMEC holds the view if it becomes apparent to the public and the general business community that the cost implications of the NWT D Project will not be offset by lower wholesale prices, then progressing this project will be contested and drive division between those who will benefit from the investment and those who are penalised by the project.

TMEC acknowledges the economy wide benefit of NWTB, Marinus Link and new generation projects. The sale of electricity, the improved reliability with added interconnection, enhanced data capacity and local businesses participation in the capital works are clearly of benefit to those stakeholders. The issue is that not everyone will experience the benefit.

Therefore, TMEC remains conditionally supportive of the NWTB project, with the primary concern being that the cost impost on existing customers, who arguably will derive no benefit from the NWTB project, is unwarranted.

The financial model for NWTB should be based on those who require the additional capacity funding the investment and the ongoing cost recovery.

Any other business investment needs to stand on its own merit. There would be an uproar if, for example, every existing hotel in Tasmania was asked to cover the cost of a new hotel being built. This is what the transmission investment rules permit. When the "rules" result in perverse outcomes, then the rules need to change to ensure sensible outcomes occur. If this point does not compel the AER to devise a fairer model, then the onus falls on the State Government to develop a funding model which restores balance and shows Tasmania is open for new business and at the same time ensures the continuity of existing businesses.

The membership base of TMEC account for sixty percent of Tasmania's electricity usage and hence TMEC acknowledges it is a voice of authority in the broader objective of Tasmania achieving 200 percent renewable generation, and the suite of projects needed. TMEC's support is likely to become fully unconditional once clarity is provided on how the cost increases will be neutralised.

TMEC appreciates the opportunity to provide input into this NWTB Stage 1 early works contingent project application.

Please do not hesitate to contact me should you require further clarification.

Yours sincerely,

A black rectangular redaction box covering the signature of Ray Mostogl.

Ray Mostogl
Chief Executive Officer