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Submission to the National Electricity Amendment (Providing flexibility in the allocation of interconnector costs) Rule 2024.

To Mr Ben Barr

In an energy system dominated by variable renewable energy, wind and solar, a diversity of connected regions will be more secure and stable than a collection of weakly connected regions. Timely commissioning of transmission infrastructure and interconnectors is essential to dampen electricity price volatility and ensure consumers enjoy energy reliability and security as the National Electricity Market transitions to net zero.

In the past, connected regions have agreed to costs being charged to customers in each region on the basis of the physical location of the interconnector and the use of the asset. For example, under the current rules National Electricity Rules (NER) the cost recovery for Marinus link would be based on physical connection and the amount of benefit - aggregate flow and use of electricity - enjoyed by customers physically connected to the link.

The cost of operating the Marinus Link asset under was modeled at $16.8m, distributed equally between Tasmania and Victoria (Earnst and Young, 2023) (not adjusted for the number of customers). Under the AEMO ISP, 2020, Step Change Scenario Marinus Link was been modeled to deliver gross benefits of:

- $2.38 billion to New South Wales
- $1.85 billion to Victoria
- $1.43 billion to Queensland
- $0.46 billion to South Australia
- $0.42 billion to Tasmania

This sums to $6.54 billion in gross benefits to the National Electricity Market (FTI Consulting LLP, 2021).

Under this scenario, Tasmania receives roughly 6.4% of the benefit whilst paying ~50% of the costs, or thereabouts pending the aggregate flow of electricity. Similarly, Victoria receives 28% of the benefit whilst paying 50% of the costs. As such, Carbon Zero Initiative (CZI) agrees with the ministers' assessment that Tasmanian and Victorian customers are disproportionately disadvantaged under the current rules governing interconnectors.

CZI also agrees with the Ministers' assessment that the project is unlikely to proceed under the current cost recovery arrangements, as it will be deeply unpopular - particularly among Tasmanian customers. As such, CZI provides the following feedback to questions posed by the Australian Electricity Market Commission, on the proposed rule change.

Emissions reduction – would the rule change efficiently contribute to achieving government targets for reducing, or that are likely to reduce, Australia's greenhouse gas emissions?

CZI applauds the adoption of emissions reduction as an implicit goal of the National Electricity Law (NEL). The Marinus Link has been modeled to reduce gross greenhouse gas emissions by 80 million tonnes, if delivered on time, roughly equivalent to the annual emissions of all passenger vehicles in Australia. As such, timely delivery of Marinus Link demonstrably contributes to state and federal emissions reductions targets.

Principles of market efficiency - would the rule change support market efficiency by supporting the delivery of net beneficial interconnectors, which will enable increased generation assets to connect and reduce wholesale costs for consumers?

CZI points to AEMO draft ISP 2024 to demonstrate that Marinus will support an efficient electricity market and greater connectivity of generation assets. Given that with a fairer method of cost recovery, Marinus is more likely to proceed, it is reasonable to say that the rule change facilitates greater market efficiency, as previously noted; the link is likely to produce $6.54 billion in net benefit distributed throughout the NEM.

Implementation considerations - would the rule change assist in timely delivery, reduce uncertainty and implementation of a successful market wide solution?

CZI believes that the rule change will facilitate AEMO's ISP as it reduces the uncertainty of Tasmanian customers about whether they are participating in a fast, fair and sustainable transition to a decarbonised National Electricity Market. Therefore the change will reduce a significant remaining barrier to the project proceeding.

Principles of good regulatory practice – would the rule change complement other reforms underway?

CZI has not formed a view on whether the rule change complement's other reforms underway. We note that the rule change conforms to principles of good regulatory governance in that the role of the regulator is preserved, whilst alternative cost recovery arrangements are introduced for complex assets. CZI trusts that Ministers will act in the interests of their constituents when entering into an arrangement, and notes that the regulator maintains its current role under the proposed rule change.

Thank you for reviewing Carbon Zero Initiative's submission to the National Electricity Amendment (Providing flexibility in the allocation of interconnector costs) Rule 2024.

Sincerely and with thanks

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