

RESPONSE TO QUESTION ON NOTICE

LEGISLATIVE COUNCIL

QUESTION NUMBER: Question 2

ASKED BY: Ruth Forrest MLC

ANSWERED BY: Leader of the Government

QUESTION:

1. With regard to current Fiscal Strategic Action No. 1 as described in the 2022-23 Budget Papers:
 - a. (i) Does revenue include capital grants; and
 - (ii) if so, why are they included when assessing a goal for an appropriate level of operating expenses?
 - b. Does the Treasurer accept that receiving grants for the Bridgewater Bridge does not indicate the State's financial position is more sustainable from an operations viewpoint?
2. With regard to current Fiscal Strategic Action No. 4 as described in the 2022-23 Budget Papers, this action requires government businesses to deliver services to Tasmanians at the lowest sustainable cost while also providing an appropriate financial return to the government:
 - a. How do the two projects Marinus and Battery of the Nation satisfy the specific expectations of Strategic Action No. 4;
 - b. How will these two projects lower electricity prices in Tasmania when the State is currently 100% self-sufficient;
 - c. (i) Will Marinus drive down local prices more than the extra burden of Marinus costs; and
 - (ii) if so, how?
 - d. What are the expected returns to government from these two projects as required by Strategic Action No. 4?

ANSWER:

1.
 - a. (i) and (ii)

Consistent with calculation methodology since the introduction Fiscal Strategic Action 1, revenue growth is calculated based on total Revenue from transactions as per the General Government Income Statement. In accordance with Accounting Standards, this incorporates all grants from the Australian Government, including capital grants. Capital grants from the Australian Government represents a small component of overall Grants, ranging from approximately one per cent to four per cent of total Revenue over the Budget and Forward Estimates period, depending on the year.

- b. Over the long term, the receipts for the Bridgewater Bridge represent a small proportion of overall revenue growth.

2.

- a. It is important to note that neither Project Marinus nor projects within the Battery of the Nation strategy have reached a Financial Investment Decision. At the appropriate time the Government will make an investment decision that is in the best interest of Tasmanians.
- b. While there is some uncertainty on wholesale electricity price reductions, analysis conducted for TasNetworks by global consulting firm FTI in 2021 demonstrates that wholesale electricity prices in Tasmania are likely to be lower with Marinus Link in service.

Within Tasmania, the 1500 MW of Marinus Link is likely to be accompanied by at least 2500 MW of wind development in the state. The introduction of this additional low-cost supply into the Tasmanian market will help exert downward pressure on wholesale energy prices.

More broadly, Marinus Link (and Battery of the Nation) has the ability to put downward pressure on wholesale energy prices right across the NEM by introducing an additional 1500 MW of dispatchable capacity into the NEM, accessing the existing spare and refurbished dispatchable capacity in the Tasmanian hydro-electric system for the first stage of the link, and enabling the development of long-duration pumped hydro facilities with the second stage of the link. This lower cost dispatchable energy assists in minimising market volatility thereby suppressing energy price rises from more expensive solutions (like gas, diesel and shorter duration pumped hydro on mainland Australia) that are otherwise required in the NEM.

- c. As noted previously, the analysis conducted for TasNetworks by global consulting firm FTI Consulting demonstrates that wholesale electricity prices in Tasmania are likely to be lower with Marinus Link in service than they would otherwise be.

In regard to the costs for Tasmanians,

written into the MoU and funding agreement for Marinus Link and Battery of the Nation, is a commitment from both the Tasmanian and Australian Governments to work together to submit a cost allocation rule change to the Australian Energy Market Commission (AEMC) for Marinus Link. This agreement was signed on the 3rd of April 2022.

This is an important step to ensure interconnector pricing and cost allocation to those jurisdictions that would benefit from Marinus and access Tasmania's low-cost renewable generation, and I expect the rule change application to be lodged shortly.

- d. As a regulated service, the returns from the Marinus Link project are expected to provide the owner a commercial return on investment. The Australian Energy Regulator (AER) determines regulated revenues.

More interconnection will unlock Tasmania's full renewable energy potential, providing clean, reliable and affordable energy to support a resilient future energy market. This will allow Hydro Tasmania greater access to market for its existing latent capacity and future investments in hydro upgrades and pumped hydro.

 APPROVED/NOT APPROVED



Hon Michael Ferguson
Deputy Premier
Treasurer

| Date: 23 June 2022