

ISSUE 2316

# "In Support of Progress" Newsletter

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## **The Marinus cable**

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Marinus is a mess.

The government has finally recognised it for what it is and has declared it has drawn a line in the sand, regarding the continuing cost blowouts. It has not yet said where that line lies, but the recent re-estimate from \$3.1 billion to a suggested \$5.5 billion gives an indication that it lies somewhere between these two "markers".

The government had entered into a tripartite agreement with the Commonwealth and the State of Victoria for a 3-way sharing of the cost, but even so, this blowout is significant. The State Government will want to renegotiate the terms with the other two entities, but one suspects the other jurisdictions will also balk at the figure. The question is how did this happen? How did it come to this?

A part of the answer lies in recent history, and a part relies in the hubris of politics and the narrow focus of the proponents.

You may recall that in late 2015, the existing BassLink cable failed and remained out of action for over 6 months. When it came back on-line, it did so with a reduced rating. This cable across Bass Strait, first commissioned in 2009, could carry up to 600MW of power – both ways – and had done so successfully until the failure, which was caused by the cable overheating. It was being driven too hard, operating for too long at its maximum capacity. The loss of BassLink occurred during an extended dry period, with hydro dams having been drawn down to historically low (and dangerous) levels.

For once, Tasmania experienced an energy crisis.

The Marinus concept stemmed from this incident, with the idea of a second cable of similar carrying capacity offering a safeguard against any further disruption. It would offer additional protection against any future failure, it would be a supplement in any future extended dry season, and it would enable hydro storages to be replenished and save any further significant draw-down. Building this redundancy made good sense, and the price tag of \$1.3 billion was an acceptable price to pay, and particularly so as it could also, like BassLink, be used to transfer power from a low-priced environment to a high-priced environment, thus benefiting the trader.

So, a dual benefit. It made good sense. - But then the wheels started to fall off the cart.

The move on the mainland to step away from thermal generation (and to concentrate on renewables) led to a level of uncertainty in future power reliability and supply. Thermal power stations began to close. Prices rose. This unreliability in power supply encouraged the thought that Tasmania, with its existing and still-to-be tapped wind resource, could become a net supplier of "cheap" power to the mainland. Thus was born the concept of "Battery of the Nation". Instead of battery storage, existing hydro dams could be used as "batteries" by pumping water back into them when the wind resource provided surplus power.

Marinus was no longer to be a single cable – it was to now be two cables, and the rating of each was to be increased to 750 MW, up from the previous 600 MW.

It would be more expensive, obviously, but the benefits were obvious – or so we were told.

However, for this wonderful new opportunity to become a reality, a few matters needed to be resolved. For starters, the installed capacity of the existing hydro system was only 3000MW, so for Marinus to operate fully it would require half the system to be operating at full capacity. However, the Tasmanian market consumed most of the power that was generated, which meant that new capacity had to be built, and that meant new transmission lines needed to be built. All this to supply power INTO Victoria – so the major beneficiaries of the increase in supply would be mainland-based.

In other words, the old paradigm of building it and they would come (to Tasmania) had been changed to build it and they can stay where they are. Not that this worried the proponents, who were focused solely on "the project".

How did that benefit Tasmanians? A lot of money to be spent, and for what reward? Many saw it as an exercise in hubris, sacrificing a natural competitive advantage (cheap power) to "save the nation". Not only were we going to export power, we were going to export jobs with it. We had come a long way from Marinus being a 600M W backup.

The boffins were spending a lot of money on feasibility studies, programs and plans. Renewable energy suppliers started to plan for and build windfarms. Pumped hydro became the new winning ticket. They could bid their power into the stack at \$0, knowing they were going to collect the high prices afforded by trading across the Strait, or for their power to be used to push water back up the hill.

As we got caught up in the hype, we saw the role as being to save the nation, oblivious to the fact that in mainland terms it was only a small addition to the national grid and a fraction of what was required. 1500MW equates to one small power station. It's not that big a deal.

The hubris surrounding being the saviour of the nation had taken over from what was going to be a real benefit to Tasmania. We were now no longer considering Tasmania's needs; we were now catering to mainland needs.

As for the rest of the nation, they were not standing still. They were spending big on their own renewable supply – Snowy 2.0 (another miscalculation of costs in the making), wind farms, battery storage, transmission lines - all of which was going to be cheaper than Marinus. And all coming on-line before Marinus. In fact, Marinus could end up being a very expensive stranded asset.

Not according to the boffins though, who kept promoting the benefits of this project, critical of any criticism and seemingly oblivious to developments elsewhere.

Of course power prices were going to rise – they had to, to cover the uncertainty being caused in the market and for all this capital development. Someone had to pay, it could not have been otherwise. As the pressure on the system increased, and with prices rising, "non-core" promises were discarded and the language changed from "bringing lower power prices" to "placing downward pressure on price increases".

One result of this whole exercise has been the review of existing hydro assets to determine what could be done to prime them, to enable them to play a part in becoming the "battery of the nation".

So it was with Tarraleah, an old station with a surrounding ageing infrastructure in need of an overhaul. With around 100 MW installed capacity, it was thought appropriate to rebuild it to almost double its capacity. All very well and good. And a necessary thing to do. However, no more water was going to pass through the station, or rather only a small addition. In other words, the overall energy output would be roughly the same. The extra capacity simply meant the power could be produced in a shorter period of time, thus enabling a greater peaking capacity for the system overall. And this for a price tag of \$700 million at last count.

With every step along this path, the cost of the project has kept moving north. Now it has reached the stage where even the most diehard of supporters are starting to query the cost. The government has also begun to ask questions, and has found that line in the sand.

Not only will the loans need to be repaid, but consumers will also have to pay higher power prices. It's just not worth it.

It is difficult for the government, which placed so much store in what was seen to be the benefits of the project, and talked it up big-time. Now we have a situation where prices have risen and unnecessary pain has been afflicted on power consumers.

Rebates have been offered for those doing it tough, and a new scheme has now been proposed where consumers receive a "bonus" if the Hydro makes a profit over \$100 m – which simply means the Hydro will never make that sort of profit.

These are policies "on the run", and policy on the run is not good policy - each has unintended consequences writ large and will cause distortions in the market. Far better to have lower tariffs.

Maybe common sense will now come to the fore. Maybe now, Tasmanian consumers will once again be centre stage. Maybe now, our competitive natural advantage of cheap renewable power, used in Tasmania, will once again become the mantra that drives government policy. Let's hope so.

### **The Voice**

The Federal Government will soon announce the date for a referendum to be held, to amend the Constitution allowing for an indigenous voice to be recognized within it.

Both campaigns, the YES and the NO campaigns, are ramping up, and there are deep divisions within the community as to whether or not it is necessary to do so. What will it achieve? What might the consequences be? Could such power be abused? And so on.

It is easy to say NO, to maintain the status quo, to stay in the "known" rather than exploring the "unknown". And yet people closer to the cause such as Noel Pearson express confidence that it will achieve positive outcomes and provide a new empowerment to and a consequent responsibility on indigenous communities. It is very much a heart vs head type of debate.

Or, as I would prefer to call it, hope versus fear.

### **The Great Divide**

With the focus bearing down on State Parliament, both major parties are facing internal tensions. For the Liberals, the defection of two backbenchers has forced the government into a minority situation, and only those two really know what their next steps might be. All very unsettling and disconcerting for those who boasted stable majority government. Come an election, one can only presume they will not seek pre-selection from their erst-while Party.

On the Labor side, David O'Byrne has announced publicly his intention to seek pre-selection from the Labor Party, and he has received backing from sections of the Party to do so. This however puts him at loggerheads with the Leader, Rebecca White, and there would appear to be little in the way of consensus in resolving this matter. One presumes first contact has been this public announcement. So very disruptive for them as well.

We live in interesting times!

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