

28 March 2022

ISP Team
Australian Energy Market Operator (AEMO)

Submitted via email: ISP@aemo.com.au

Dear AEMO

Addendum to the Draft 2022 Integrated System Plan (March 2022)

Hydro Tasmania welcomes the opportunity to respond to AEMO's *Addendum to the Draft 2022 Integrated System Plan (ISP)*.

As evidenced by Figure 1 of the [Addendum](#), the ISP is a significant and iterative undertaking. We greatly appreciate AEMO's efforts to consult widely with stakeholders, as industry engagement and modelling transparency are essential to continue building confidence in the ISP process. On this basis, we also strongly support the role of the Australian Energy Regulator to critically assess the key inputs and assumptions, and how these contribute to AEMO's Draft 2022 ISP outcomes.

A robust and transparent whole-of-system plan is extremely valuable to ensure a least-cost pathway for energy consumers and investment in a secure and reliable energy supply over the longer-term. The ISP approach provides additional information on the relative value of projects across the system as a whole, rather than a narrower project by project view. Assessing projects without consideration for the broader system-wide implications will over-simplify and under-value the true benefits of major enabling transmission investments.

Origin Energy's recent announcement on the early closure of the Eraring Power Station, coupled with other announcements bringing forward closure dates of ageing coal-fired generators, provides an important backdrop for the 2022 ISP. This highlights the importance of ensuring the market moves in a timely fashion to deliver the transmission and generation assets required to support a smooth energy transition in the National Electricity Market (NEM).

It has been well documented that there is a significant opportunity to support the energy transition by providing access to Tasmania's existing clean, flexible and dispatchable capacity and deep storage, which is capable of cost-effectively integrating increasing shares of VRE in Victoria, and further across the NEM. Hydropower assets have significant start/stop and ramping capabilities which make it a highly complementary resource to balance out the increasing shares of wind and solar in our power

system. Deep storages offered by hydropower are being increasingly recognised for their role in managing prolonged wind and solar ‘droughts’, and inter-seasonal variations in supply and demand. Opportunities for the development of deep storage across the NEM are limited both technically and economically. Therefore, the scale and depth of Tasmania’s water resource should be highly regarded when planning for our future energy system. In addition, Tasmania’s wind resource offers diversity benefits and higher than average wind capacity factors. Three of the top ten performing wind farms in the NEM for 2021 were located in Tasmania. The Draft 2022 ISP reflects this, forecasting a capacity factor of 48% for Tasmanian Renewable Energy Zones, compared with 33% to 35.5% for other regions. Marinus link is critical to unlocking these significant renewable energy and firming opportunities.

Marinus Link Timing

AEMO’s commentary and rationale clarifies the ISP’s timeframe for the delivery of Marinus Link (cables 1 and 2). A timely delivery of this infrastructure will ensure that Tasmania’s energy resources can make a key contribution to replacing closing coal-fired capacity. The ISP has a critical role in indicating to the market when interconnection and flexible capacity will be available. The coordinated planning of both Marinus Link cables will allow Tasmania (and in particular Hydro Tasmania) to optimise its generation in order to support mainland energy and capacity demand. Importantly, as noted in the Addendum, a coordinated delivery of both cables can also realise synergies in progressing design, approvals and community engagement, and is likely to minimise disruptions for relevant stakeholders.

The Addendum highlights a key issue for consumers – that the delivery of critical infrastructure is likely to lead to trade-offs between optimal timing and economies of scale. Energy users will rightly require transparency around these choices. Page 18 of the addendum highlights this conundrum, stating that in some instances “... consumers are better off if the cable can be delivered more cheaply, but a little too early, than just in time...” In addition, Hydro Tasmania considers that the rate of industry transition currently occurring demonstrates that a “just in time” approach is increasingly difficult, and may create significant risks for consumers.

Revenue Adequacy Considerations

With respect to the recent announcements regarding an early closure of the Eraring Power Station, Hydro Tasmania notes AEMO’s modelling efforts to factor in revenue adequacy considerations. This is an important consideration when attempting to forecast a realistic closure of assets that are unlikely to remain economically viable under ISP scenarios. While we recognise that this approach only resulted in the earlier closure of one generator under the progressive change scenario, we consider it important that the ISP process reflects the market realities facing generators.

We look forward to ongoing engagement with AEMO as this work progresses. If you wish to discuss any aspect of this submission, please contact me (03) 8612 6443 or at Colin.Wain@hydro.com.au.

Yours sincerely,



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