Comments on the Marinus Final Investment Decision (FID)

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Version information

Version	Date	Notes
02	6 August 2025	Extra text on use of projected Hydro profits. Links in references to individual documents. Added Forrest references.
01	3 August 2025	First draft

Summary

The positive final investment decision of Marinus Link Stage 1 by the Tasmanian state government on 1 August 2025 has many anticipated benefits but also exposes some significant risks for consumers, for the state government and for state owned businesses. A number of the claimed benefits are highly contentious, overstating benefits and/or downplaying risks.

The claimed reduction in electricity costs for regulated customers is a classic case of comparing apples with oranges. The increases in network costs are substantial and certain. The claimed offsetting reductions in wholesale energy costs are uncertain and based on contentious assumptions.

Last minute suggestions that increased costs could be offset with anticipated increased profits from Hydro Tasmania should also be treated with scepticism. The anticipated profits are based on many assumptions and the government commissioned Whole of State Business Case specifically warns that The Government should "*exercise caution in 'locking in' expenditure based on modelled Hydro Tasmania returns*". In any case the increased costs are virtually guaranteed by the decision taken on 1 August but any decision on the allocation of any future profit increases by Hydro Tasmania will be made by whoever leads the government after 2030.

The Whole of State Business Case identifies a variety of significant risks but these are largely ignored in the government's statements after giving the project go-ahead.

What is Project Marinus?

Marinus Link was originally a TasNetworks project. It is now a separate company, Marinus Link Pty Ltd (MLPL), owned by the energy ministers of Australia, Tasmania and Victoria with agreements on cost sharing between the jurisdictions.

It was originally proposed as two 750 MW cables linking Tasmania and Victoria. As a result of a doubling of the estimated cost, the current proposal ("Stage 1") consists of a single 750 MW cable and associated on-land infrastructure in both Tasmania and Victoria. The total cost of this first stage of the project is expected to be in excess of $5 billion[1].

The project is separate to, but inter-dependent with, the TasNetworks North West Transmission Developments (NWTD) project. The NWTD would be totally owned by TasNetworks and costs would be recovered from Tasmanian electricity consumers in addition to the cost of Marinus Link.

The two projects together are referred to as "Project Marinus".

The recent FID relates only to Stage 1 of Marinus Link. The NWTD is subject to separate approval and FID processes. Stage 2 of Marinus Link (the second 750 MW cable) is briefly discussed in the documents released but there is no certainty that this stage will go ahead.

Documents released

Two sets of documents were released on 1 and 2 August:

- The **Whole of State Business Case** (WoSBC) documents: These documents {DTF 2025a} are dated April 2025 but were only publicly released on 1 and 2 August. See reference section for a full list of these documents.
- **Tasmanian Government Final Investment Decision on Project Marinus**: Renewables, Climate and Future Industries Tasmania (ReCFIT). These documents {Recfit 2025a) were released after the FID was signed by the Tasmanian Government and include information on last minute negotiated arrangements. See reference section for a full list of these documents.

[1] The AER estimates {AER 2025a, p.19} a regulated asset base (RAB) of $5,051.3m at the point that consumers start paying for Marinus Link in 2030. This includes the already approved Early Works proposal, the estimated Stage 1 costs of $3.8 billion, and capitalised return on the RAB during construction. This does not include the approximately $900m of the TasNetworks NWTD.

The final decision

There were clearly intense negotiations between Tasmania and the federal government in the days before the final decision was made. These last minute changes include {Recfit 2025b, p.2}:

- Tasmania's equity share for Marinus Link is capped at $103.5 million. (If Victoria and the federal government make extra capital contributions, Tasmania's equity is reduced pro-rata).
- A $346m contribution to the cost of the TasNetworks NWTD designed to reduce the impact of increased transmission charges.

Why the rush?

MLPL was required to lodge a 'Notice to Proceed' by 31 August 2025 in order to secure the contracts for convertor equipment and the undersea cable. This deadline led to the making of a final investment decision when a number of arrangements were not in place that would normally be required before a final investment decision.

Impacts on electricity prices

Claims on cost impact

Marinus is claimed to reduce energy prices for consumers. Sometimes this is stated as a simple assertion, eg "*Marinus will deliver lower power prices, …*" {Rockliff 2025} but other times this includes the qualification "*Tasmanian households and small businesses will pay lower power prices with Marinus than without it*" {also in Rockliff 2025}.

Claimed reduced prices are based on modelling that suggests that reductions in wholesale prices will more than compensate for increased transmission charges. This is comparing apples and oranges, it compares increased transmission costs for consumers (which are definite if Marinus is built) with modelled wholesale energy cost reductions (which are notoriously difficult to predict).

It is not clear if the costs are based on the likely full cost to consumers. Much of the documentation mentions a prices for Stage 1 of $3.8 bn. In fact the estimated cost by the time consumers start paying for Marinus in 2030 is over $5 bn, without the increased transmission costs from the NWTD or Basslink.

The modelling of costs in the 'world without Marinus' are also contentious.

The FTI report {FTI 2024} used by MLPL assumes that Tasmania will see a large increase in electricity demand from 2030 onwards, mainly due to hydrogen production. This increased demand is assumed to exist even in their 'world without Marinus' calculations. This in turn leads to higher modelled wholesale prices without Marinus because this demand is modelled to be met by increased use of gas-fired generation and imports from Victoria. In fact the increased demand is not expected to materialise if Marinus is not built.

Allocation of costs

MLPL proposes that 27.6% of the costs will be met by Tasmanian electricity consumers and the remaining 72.4% from Victorian consumers once cost recovery starts in 2030. This is despite the fact that Victoria has 92% of the combined population of the two states. On top of this disparity, most of the NWTD will be paid for by Tasmanian consumers, yet most of this development is only necessary to support Marinus and the projects it is expected to facilitate.

APA Group proposes that 75% of the cost of Basslink be paid by Victorian consumers and 25% by Tasmanian consumers {AER 2025b, p.25}. This is likely to start from July 2026.

Prices for residential and small business customers

The WoSBC contains the first public statement of expected transmission price increases:

> *Marinus Link and the NWTD Stage 1 increase transmission prices by an estimated $70 (3 per cent) for a residential customer on a typical bill of $2 200 (in real $2023-24). Transmission prices increase by $140 for a typical small business customer.* {DTF 2025b, p.12}

Documented costs to consumers should include the AER allowed cost recovery on Marinus Link, the cost recovery on the NWTD and the cost recovery on Basslink as a regulated interconnector.

Prices for customers connected to the transmission network

Large industrial electricity consumers (which includes the major industrial sites, sometime known as MIs) can be connected directly to the transmission network. This is important for two reasons:

- Customers connected to the transmission network pay a proportion of transmission charges but not distribution charges. This is relevant because the costs of Marinus Link, Basslink and the NWTD will be added to transmission costs. Distribution costs make up a significant proportion of electricity bills for residential and small business customers. Transmission charges make up a larger proportion of the costs for directly connected customers so they will be relatively more impacted by increased transmission charges.
- Directly connected customers generally have individual negotiations for the price of energy (the other major component of their electricity charges). For residential and small business customers, Marinus is modelled to reduce wholesale energy prices and these benefits are expected to flow through to retail electricity bills. This is not as straight forward for directly connected customers.

The WoSBC estimates that the impact of increased transmission charges on MIs will be a 45% increase:

> *Tasmania's Major Industrial (MI) customers would face very large increases in transmission prices under Marinus Link Stage 1 arising from their high usage of the network. The MI customers combined are estimated to see average price increases from 2030-31 to 2049-50 of almost $20 million (45 per cent) with Marinus Link Stage 1, compared to "No Marinus", well above the 2024-25 total costs of approximately $42 million.* {DTF 2025b, p.13}

Proposals to offset increased charges with Hydro profits

The profits made by Hydro Tasmania are expected to increase once Marinus is commissioned. There are two main reasons for this:

- Basslink and Marinus Link, as regulated interconnectors, will be paid for by electricity consumers in Victoria and Tasmania. Previously Hydro paid the owners of Basslink for access to the cable.
- With two interconnectors in operation (500 MW plus 750 MW) Hydro will have increased ability to import and export electricity with Victoria when prices are different in the two regions.

Because Tasmania currently uses about as much electricity as it generates, exports to Victoria will have to be offset by imports from Victoria. Until there is surplus generation in Tasmania, profits to Hydro will depend on significant wholesale prices differences between Victoria and Tasmania. Basic economic theory suggests that with increased interconnection, price differences will reduce. This may be offset by greater variability in generation in Victoria as coal generation is replaced by wind and solar.

The suggestion has been made that Hydro profits could be used to offset transmission cost increases:

> *"The Liberals have told business leaders they will negate these by effectively subsidising those affected, including big industrial power users that employ thousands. This offsetting will come from an estimated $200m to $400m in extra revenue for the state that would allegedly flow from exporting clean energy to the mainland."* {Denholm 2025}
>
> and

> *"Consideration could be given to measures that manage cost impacts associated with Project Marinus, such as:*
>
> - *Using expected increases in Hydro Tasmania profits to offset cost increases for large energy users…"{*Recfit 2025b, p.9}

This is a tacit acknowledgement that modelled wholesale price reductions from Marinus may not eventuate to the extent necessary to fully offset increased transmission charges.

The figure of $470 m in modelled higher Hydro profits per year is an average for the period 2031-2050 and has the following note:

> *The forecast returns to the government cover a long period (up to 20 years) and are shown in future dollar values. Because they include the effects of inflation over time, the numbers may appear large compared to today's values.* {Recfit 2025e, p.16}

The projected Hydro profits are highly variable, heavily dependent on assumptions and subject to a number of risks. These are outlined in section 8 of the full WoSBC, in particular pages 302 to 310 (DTR 2025c) but this section is heavily redacted.

The WoSBC warns against counting on Hydro profits:

> *The Government should exercise caution in "locking in" expenditure based on modelled Hydro Tasmania returns. {DTF 2025b, p.15}*

Despite this warning the government seems to have used the modelled Hydro profit increases to both assure major industrial customers that increased transmission charges will be offset, and also that the profits will be used to "… *invest more in hospitals, schools, roads and keep power prices low*" {Rockliff 2025}.

Impact of Basslink decision by the AER

Basslink is the existing 500 MW cable linking Tasmania and Victoria. Basslink was recently purchased by the publicly listed APA Group. APA applied to the Australian Energy Regulator (AER) to convert Basslink to a regulated interconnector. At present the costs and benefits of Basslink rest with APA. The previous owners of Basslink signed an agreement with Hydro Tasmania which, for a set fee, allowed Hydro Tasmania to accrue the benefits of the use of Basslink.

On 26 June 2025, the AER agreed for Basslink to be converted to a regulated interconnector. As a result the capital and operational costs will be passed to electricity consumers in Victoria and Tasmania and any approved body will be able to use the interconnector. This has two implications; consumers will be paying for two interconnectors if Marinus is constructed, and the ability to benefit from price differences between Victoria and Tasmania will be shared between the two interconnectors.

The Whole of State Business Case documents were written before the final decision by the AER on the conversion of Basslink to a regulated interconnector.

The AER previously made a draft decision against Basslink becoming a regulated interconnector. This was based on an assessment that it was not clear that the benefits to consumers would outweigh the costs. This was with a proposed price of $831 m for a 500 MW link. This draft decision was opposed by some parties and endorsed by others.

The AER draft decision did increase the doubts about the claimed consumer benefit of Marinus. MLPL assure us that a project with a cost four to six times higher for a link only 50% bigger would be a benefit to consumers. The statement that the decision to convert Basslink to a regulated interconnector based on consumer benefit "is finely balanced" is repeated in the AER's final decision.

Summary of risks

The WoSBC documents a range of risks arising from the decision to proceed with Marinus. These are summarised in table 10.8 of {DTF 2025c, p.364} but this table has been redacted in the public version of this document.

Areas of risk include:

- A decision to proceed has been made when many relevant processes are not concluded. These include the AER's decision on Stage 1 Construction Costs, planning and environmental approvals and possible conditions imposed by the Clean Energy Finance Corporation {see DTF 2025c, p.339}.
- The concessional finance to be provided by the Clean Energy Finance Corporation is assumed rather than confirmed by contract {DTF 2025c, p.232 – significant parts of this page are redacted in the public document}.
- Unconstrained access to the additional borrowing from the Tasmanian Public Finance Corporation (Tascorp) is assumed. However "*access to additional Tascorp funding will be subject to its credit assessment practices; board approvals processes; and increased guaranteed borrowing limits approved by the Treasurer*" {DTF 2025c, p.232-3}.
- The Marinus Link shareholders "*face substantial financial risks from cost increases and adverse regulatory revenue outcomes, including increased equity contributions and reduced returns, noting approximately 55 per cent of the project cost is yet to be validated and refined for final submission to the Australian Energy Regulator*" {DTF 2025c, p.235}.
- MLPL does not intend to collect revenue until the first cable is commissioned and providing transmission services (at least 2030). Therefore all cost before then must be met from equity contributions or borrowings (see comments above on possible risks with CEFC and Tascorp borrowing).
- Should the project's post-FID conditions not be achieved and the project is deemed no longer viable, the full financial exposure to the State is significant, but the actual details have been redacted {DTF 2025c, p.242}.
- TasNetworks contingent projects are assumed to be fully funded from additional Tascorp borrowings prior to cost recovery once commissioned. (See comments above on possible risks to Tascorp borrowing.)
- Possible impacts on the state credit ratings provided by S&P and Moody's. See discussion at {DTF 2025c, p.24 and p.332}.

The implications for the state budget are analysed in greater detail in Ruth Forrest's post {Forrest 2025a}.

References

Note that all references to page numbers relate to the number shown on the page, not the page number as reported by Adobe Acrobat.

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FID documents

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