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Lodged by email to: info@esb.org.au

Submission to the ESB Transmission Access Reform Directions paper

Who is ACCIONA?

ACCIONA Energía is the largest 100% renewable energy company with no fossil legacy in the world. It has 11GW of renewable energy in 16 countries. With 30 years of experience, ACCIONA Energía offers a complete portfolio of tailor-made energy solutions for its corporate and institutional clients to meet their decarbonisation goals. ACCIONA is committed to the highest environmental, social, and corporate governance (ESG) standards. ACCIONA S.A., a leading global company in the provision of regenerative solutions for a decarbonized economy, is the reference shareholder of ACCIONA.

ACCIONA has been operating in Australia since 2002, where it has successfully developed its renewable energy, water, and infrastructure businesses.

ACCIONA Energía develops, builds, and operates wind farms that produce clean energy for more than 285,000 Australian homes per year. It's installed capacity of 435 MW is distributed between Mt. Gellibrand (132 MW, VIC), Waubra (192 MW, VIC), Cathedral Rocks (64 MW, SA) and Gunning (46.5 MW, NSW). The company is currently commissioning a wind farm south of Mortlake (157.5 MW, VIC) and has recently commenced construction on the MacIntyre Wind Farm Precinct (1,026MW, QLD).

ACCIONA Energía has a strong development pipeline of over 3,000 MW of wind and solar projects to support Australia's transition to a low carbon energy supply over the coming years.

ACCIONA has also constructed major infrastructure projects such as the Legacy Way tunnel in Brisbane, a 41km bypass for the Toowoomba motorway, a desalination plant in Adelaide, the Mundaring water treatment plant east of Perth, and the Sydney Light Rail. ACCIONA is currently building two waste-to-energy plants in Western Australia among many other projects.

Introduction and summary of submission

ACCIONA Energía (ACCIONA) welcomes the opportunity to participate in the ESB's ongoing consultation on Transmission Access Reform.

ACCIONA is of the view there is still a need to demonstrate that the scale of the interventions proposed by the ESB to reform transmission access is warranted. While there is recognition that congestion risk will likely grow in many regions of the National Electricity Market (NEM) as part of the transition to low/no emission energy supply, the extent of this risk is not yet clearly evaluated in the work so far.

ACCIONA strongly believes that the most effective response to a forecast risk of congestion is to ensure the grid is fit for purpose and to accelerate the pace of the significant transmission build that is required under the AEMO optimal development pathway. At present, congestion risk is primarily due to underinvestment in transmission and transmission capacity not keeping pace with new investment in generation.

That said, ACCIONA appreciates the ongoing work of the ESB investigating the Congestion Relief Market (CRM) and other approaches. In particular, ACCIONA encourages further investigation of whether the CRM is an appropriate model to ultimately incentivise storage and load to reduce congestion in the (NEM). ACCIONA also supports a range of reforms to enhance information on network capacity and congestion available to developers and investors. We do not however believe that further reform aimed at influencing investment locational decisions is warranted at this stage.

Operational timeframe proposals

The Congestion Relief Market continues to warrant further investigation

ACCIONA supports the objective the Congestion Relief Market (CRM) seeks to address, being to enhance incentives for technologies (such as storage and loads) to invest and operate to relieve congestion. The potential of the CRM hinges on its ability to achieve these aspects, and thereby both improve dispatch efficiency and reduce congestion exposure of participants.

The CRM proposal outlined by the ESB purports to both reduce congestion and provide generators with a flexible, transparent and voluntary tool to manage their congestion exposure. However, further work is required to clearly demonstrate to stakeholders how the proposed approach and design elements including reducing congestion risk, cost effectiveness a reliable and with voluntary participation, delivers a net benefit to the market and does not result in unintended consequences for participants.

More detailed examples and modelling should be provided

Further modelling and more detailed worked examples are needed to facilitate consultation and ensure the proposal is well understood. This includes the release of detailed modelling results demonstrating how the CRM will achieve its stated objectives, particularly under a range of different network configurations and more complex multi-constraint scenarios. While the Directions Paper offers a few worked examples, they remain limited to some simplistic examples.

CRM participation must be voluntary

ACCIONA emphasises the importance of maintaining the voluntary and independent nature of the CRM market, which was central tenet of the original proposal and support from industry. Incentives should be designed to maintain flexibility to participants to manage their market participation according to the various opportunities, costs, and constraints they face.

More so, the CRM design options should not impact on energy market dispatch and settlement. For instance, the calculation of the RRP must remain based on the energy market dispatch as per Option 1 of Section 4.2.5 in the Directions Paper. Option 2 which proposes an RRP based on CRM dispatch, is contrary to this approach, as this does not preserve the independent nature of the energy market.

Importantly, Option 1 retains the current definition of the RRP and therefore avoids impacting existing long-term energy contracts. This benefit outweighs the identified potential downsides, those being that there may be a residual differential between the RRP-CRM and the RRP-NEM, and a potentially more complex settlement for FCAS.

Unintended consequences of a CRM should be carefully monitored and minimised

To evaluate the potential and minimise the chances for unintended consequences of such fundamental market reform, analysis examining outcomes and wealth transfer under various CRM design choices and bidding approaches is needed. In particular, Section 4.2.3 'Arbitrage opportunities for out of merit generators' in the Directions Paper raises the potential for strategic bidding by generators (including storage acting as a generator) that could result in wealth transfer to out-of-merit generators. This is a potentially complex issue and therefore further investigation of the impact of proposed design choices is warranted.

The CRM must be able to be cost-effectively implemented

Finally, modelling is also needed to show that the CRM can be implemented cost-effectively alongside the energy and FCAS markets and is not too computationally demanding.

ACCIONA does not support the Congestion Management Model

ACCIONA reiterates from our previous submission that we do not support the proposed Congestion Management Model (CMM). The proposal is complex, inflexible, and opaque, and overall the CMM does not satisfy the objectives set by the ESB. We do not support that it remains under consideration.

A model such as the CMM which imposes compulsory locational pricing as outlined in the ESB proposals to date is unacceptable as it imposes a new basis risk for all generators, without giving due consideration for investments made to date and in good faith. The CMM could further deter storage investment from congestion regions, where it would have little choice as to how to optimise the management of storage.

Investment timeframe proposals

Enhanced information

ACCIONA strongly supports the provision of more information on transmission capacity and congestion to improve the efficiency of investments through optimal location decisions. ACCIONA contends that the information barrier to developers on transmission capacity is a primary contributor to later investment decisions which may commit to projects despite their location in congested areas of the grid.

This 'no regrets' reform will facilitate investment decisions regarding project location, through supporting investors to better evaluate congestion risks to projects.

The availability of timely and regularly updated transmission information will assist investors in their project development plans. The lengthy time (often many years) taken to develop, construct and connect projects exacerbates the risk of poor locational decisions as congestion/forecast congestion may change significantly during this time.

ACCIONA would encourage a range of approaches to improve the availability and quality of available network capacity and congestion information.

In particular, ACCIONA believes indicative network hosting values would be useful. However such information (regarding zones) would need to be of a high granularity and regularly updated to provide useful and reliable information to project developers. For instance these zones likely need to be smaller than the sub-regions developed by AEMO for its capacity outlook for the ISP. There would also be value in more granular ISP modelling, or curtailment forecasts available to developers.

Alternatively, ACCIONA suggests that the provision of underlying data would enable developers to perform their own assessments of the congestion impact on potential generation investments in a timelier manner. As such, developers can decide their own risk approach when calculating future congestion risk.

Hosting capacity assessment

Assuming the hosting capacity assessment is a generic assessment for all potential projects in a region, it would be important to have multiple values covering technology-specific hosting capacity values – such as wind and solar headroom assessments. Capacity value should be produced for seasonal scenarios, and these would also ideally be supplemented with high resource (wind and solar) scenarios.

Ideally, hosting capacity assessment would be based on all types of constraints, not only thermal. In calculating hosting capacity values ACCIONA's preference is to include anticipated projects alongside committed projects.

Priority access and congestion fees

ACCIONA considers that reforms to facilitate greater provision of information on capacity and congestion, as discussed above, are priority actions with respect to influencing investment locational decisions and should be pursued immediately.

Concurrently with this transmission access reform process, jurisdictions are planning and developing Renewable Energy Zones designed to attract generation projects to targeted regions with current/future transmission capacity.

Considering the wide reaching and complex interplay of various measures being considered and implemented in the NEM, the enhanced information reform should be pursued and jurisdictional REZ reforms should continue in advance of further decisions being taken about any other proposals to influence investment locational decisions.

Furthermore, ACCIONA does not agree that congestion risk is materially impacting the cost of capital faced by project developers and therefore that reforms to firm up transmission access are required.

On this basis ACCIONA strongly encourages that the further reform models for the investment timeframe – being priority access and congestion fees – be put on hold and re-evaluated post implementation of the enhanced information and jurisdictional REZ reforms.

Priority access

The priority access proposal aims to deliver a signal to incentivise connection in areas with less congestion and/or the new entrant receives a lower queue position.

The transmission queue proposal for priority access seeks to address uncertainty, but in doing so it introduces further uncertainty and complexity. In particular it has the potential to exacerbate the existing risk and delays in the connection process.

This transmission queue proposal is problematic with regards to grandfathering of transmission access. Incumbents' sunk investment needs to be respected and this could be achieved by allocating a position of "0" to incumbents. However such approach would in fact increase incumbents' grid access relative to the status quo, thereby reducing the

access of new entrants. This would appear to work against the objective of facilitating further new investment to support the energy supply transition process and no clear-cut alternative approach to manage this disincentive is apparent.

Priority access artificially introduces a new inefficiency into the energy market dispatch, and while, if in a hybrid approach with the CRM, final dispatch in the CRM could trade away this inefficiency, the deliberate introduction of this inefficiency does not seem warranted by the objective of the proposal and the extent of the problem.

It is unlikely that this proposal would translate to a level of improved certainty on congestion.

Congestion fees

ACCIONA notes that the congestion fees as proposed do not remove congestion risk, as generators may still choose to pay fees and connect in a congested area.

More so, ACCIONA notes that the calculation of an appropriate congestion fee level will be difficult due to the dynamic nature of congestion over time. Inaccuracies in longer-term modelling of congestion are inevitable – new entrants, generation profiles, policy, and other fundamental modelling assumptions such as cost assumptions will deviate from the long-run congestion modelling assumptions over time. As such ACCIONA does not consider that the current proposal on congestion fees as a tool in managing congestion in the investment timeframe is appropriate as proposed.

Conclusion

ACCIONA thanks the ESB for the opportunity to participate in the Transmission Access Reform consultation.

We look forward to further detail about how information on transmission capacity and congestion for investors could be improved and a detailed investigation of the CRM.

If you have any questions in relation to our submission or areas you would like to discuss further, please contact Melanie Sutton, Director of Markets and Policy on melanie.sutton@acciona.com.

Yours sincerely



for

Brett Wickham

Managing Director, Energy, Australia

ACCIONA Energía