
21 December 2022

Energy Security Board

By email: info@esb.org.au

Re: Iberdrola Australia response to transmission access reform Directions Paper December 2022¹

Iberdrola Australia welcomes the opportunity to make a submission. Iberdrola Australia delivers reliable energy to customers through a portfolio of wind capacity across New South Wales, South Australia, Victoria, and Western Australia, including both vertical integrated assets and PPAs. Iberdrola Australia also owns and operates a portfolio of firming capacity, including open cycle gas turbines, dual fuel peaking capacity, and battery storage. Our development pipeline has projects at differing stages of development covering wind, solar and batteries. This broad portfolio of assets has allowed us to retail electricity to over 400 metered sites to some of Australia's most iconic large energy users. Iberdrola Australia is also coordinating the development of integrated solutions, across new generation, transmission, and industrial loads.

Iberdrola Australia is part of the global Iberdrola group. With more than 120 years of history, Iberdrola is a global energy leader, the world's number-one producer of wind power, an operator of large-scale transmission and distribution assets in three continents making it one of the world's biggest electricity utilities by market capitalisation. The group supplies energy to almost 100 million people in dozens of countries, has a workforce of more than 37,000 employees and operates energy assets worth more than €123 billion.

1. Overview of our submission

Iberdrola Australia supports the submission by the Clean Energy Council, who represents the majority of investors in the NEM. Their submission reflects extensive

¹ <https://www.datocms-assets.com/32572/1667984730-tar-directions-paper-final-for-web.pdf>

consultation across industry. We therefore provide only a short submission. The key points of our submission are:

- The ESB should consider all schemes through the lens of emissions reduction (consistent with the policy of all levels of government), with a focus on unlocking new transmission to access new renewable resources.
 - All models need to recognise that coal plant are rapidly exiting the market. It will be efficient to use those same transmission lines even where it congests coal, helping to deliver a smooth transition.
- Ministers and the ESB need to rule out local marginal pricing (LMP) models, including the Congestion Management Model (CMM). The uncertainty around LMP and CMM continues to create challenges for investors, and implementing LMP will increase the risks for new investors without reducing costs to consumers.
 - Critically, LMP will not unlock new transmission or new renewable energy resources, or make investment easier. In fact, it is likely to *increase* costs by exposing investors to large swings in price compared to the current framework where congestion is a small change in volume. This increases investment risk and hence hurdle rates.
 - LMP will therefore not reduce the cost of producing energy, and so will not reduce costs to consumers. In contrast, it will risk chilling investment and delaying build necessary to meet jurisdictional climate targets.
 - The continued risk of LMP being implemented (either indirectly or as a “fallback” model) creates significant risk for investors.
- LMP/CMM is not a suitable “fallback” model, and should not be implemented as a last resort option.
- As has been recognised by all jurisdictions, developing new transmission is therefore key to unlocking new resources and driving in new, low-cost renewable energy. We strongly support the work being undertaken by jurisdictions to deliver Renewable Energy Zones and the Rewiring the Nation plan.
 - Given the volume of investment required, contestability will be key for delivering solutions at least cost. Governments should seek to run competitive processes for new transmission where reasonable.
 - It is key to recognise that generator-led transmission developments (i.e., generators build which leads to congestion) allow for investment in risk-free transmission. This is a net-gain for consumers in a world where new transmission will need to be developed regardless.
- Key details about the implementation of the models, including AEMO implementation questions and any cost-benefit analysis, have not been released. This makes it challenging to make recommendations as to the preferred policy.

- Given that previous modelling by NERA had significant flaws², we encourage Ministers and the ESB to release that modelling and seek peer review from stakeholders before proceeding to a decision stage.
 - The ESB has previously relied on cost estimates that have not been justified.
- More generally, access schemes are valuable for avoiding “gold rush” conditions that may lead to uncoordinated entry, such as occurred over the 2016-2021 supercycle³ and which could occur when establishing a new renewable energy zone. However, this does not necessarily require wider access reform – the ESB has not demonstrated any material congestion costs in the NEM, or in the future (particularly when all energy has the same marginal production cost).
- Markets will deliver efficient outcomes when there is strong information sharing. The NEM already provides strong locational signals for locating generation, but there are opportunities to enhance information sharing provisions and leverage modelling from TNSPs around congestion. All scenarios must take into account the likely closure of coal units over the next decade.
- The Congestion Relief Market (CRM) proposed by industry may provide value in matching flexible supply and demand behind congestion points while still allowing for investment to meet customer demand in the region. Further analysis, particularly of the original model proposed by Edify and the Clean Energy Council, should be undertaken.
 - The industry led proposal was for an opt-in model which allows for additional unlocking of value. The ESB’s presentation of an opt-out model and a focus on local marginal pricing creates risks that the potential benefits of this model will not be realised.
 - Ministers and the ESB should work with investors to ensure there remains a single regional reference price that applies to load and generation to support a liquid contract market, while allowing for bilateral trades behind a congestion point where it is efficient to do so.
 - Limited details, particularly in terms of AEMO’s systems, have been released to date, which makes it difficult to assess the ESB’s proposal.
 - We support the CEC and Edify’s submissions with respect to this model.

² <https://www.aemc.gov.au/sites/default/files/2020-10/EPR0073%20-%20Snowy%20Hydro%20submission%20COGAT1%20interim%20report%2019Oct2020.pdf>

³ <https://www.sciencedirect.com/science/article/abs/pii/S0301421521005139>

- For the other investment timeframe models, care should be taken to ensure they will actually return benefits will be delivered to consumers.
 - For example, in addition to the complexity of connection zone charges, higher costs for the marginal new entrant would be passed onto consumers through higher wholesale prices across their entire bill.
- Generator priority dispatch explicitly trades off some short-term dispatch efficiency with some long-term investment efficiency. Such schemes may provide additional certainty to early investors, but many key design questions still need to be addressed.
 - For example, if new entrants must assume all congestion risk including for issues unrelated to known constraints (for example, major outages, new system security constraints, etc.) this may have a chilling effect on new investment.