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Submission to the ESB Transmission Access Reform Consultation 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 Energía is committed to the highest environmental, social, and corporate governance (ESG) standards. The broader ACCIONA Group 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 constructing 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.

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 pleased that the 'enhanced information' component of the ESB's transmission access reform has been endorsed by the Energy and Climate Change Ministerial Council and will proceed directly to a rule change process. This is a relatively low cost 'no regrets' reform that should, if well designed, significantly improve the ability of developers to properly consider and account for existing and expected congestion outcomes throughout

the development cycle and in their final investment decisions. We look forward to continuing our participation in the rule change process.

We do not however support the proposed 'priority access' model. The inefficiencies this proposal would introduce into the dispatch process and the complexities it would introduce for developers attempting to predict the likely priority level for their pipeline projects – not to mention the likely costs for AEMO to implement the regime – means the solution is not a proportional or appropriate response to the problem statement. This is distinct from 'enhanced information' proposal which facilitates the anticipation and management of 'cannibalisation' risks and supports efficient project siting without introducing these inefficiencies, complexities and costs.

The cost benefit analysis (CBA) commissioned to support this project makes clear that priority access worsens market and customer outcomes unless paired with the proposed 'congestion relief market' (CRM). However, ACCIONA is not convinced of the cogency of introducing a problem with one reform only to fix it with another. At the very least, a CRM should be thoroughly trialled and tested well in advance of any decision to implement a priority access model.

A CRM could conceivably be progressed independently of priority access. Without priority access allocating artificial value to some generators that can be traded away in the CRM to undo perverse outcomes, the CRM could be targeted to a more genuine kind of congestion relief. We would primarily expect this to be in enabling trade in congestion relief between storage projects or scheduled load and renewable generators (rather than trade between generators). However, in view of the limited situations in which CRM trades may prove useful and the complexity associated with its implementation (which has been assessed in the CBA as 'very large' with an attendant 42-month delivery timeline), ACCIONA considers more design and testing work is necessary before a decision to progress can be made.

It is clear that the appetite for investment in renewable energy in Australia is enormous. ACCIONA itself has more than 1,000 MW under construction and over 3,000 MW in the pipeline. A plethora of other domestic and global corporations are also exhibiting strong ambitions for the local market. The primary factors slowing the conversion of these ambitions to reality relate to delays in the overall transmission build out, inefficiencies in planning and permitting frameworks and protracted connection processes. We urge governments and market bodies to concentrate their time and resources on addressing these more fundamental issues to meaningfully expedite the connection of new projects to the grid and realising Australia's emissions reduction targets.

Our more detailed comments follow.

Priority Access

The motivation for introducing priority access is described as twofold. Firstly, it aims to encourage projects to locate in areas where they can provide the most benefit to

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customers. Secondly, it theorises that by managing access risk investor cost of capital will be reduced.

With regard to the first arm of this problem statement, ACCIONA is strongly of the view that 'enhanced information' is a sufficient, appropriate and proportional response. Via congestion studies and significantly bolstered by this enhanced information, project developers will be well informed of the locations where congestion is or is not likely to be problematic in the short and medium term and take this into account when assessing alternative project locations. In ACCIONA's view, time should be allowed for this rule to be introduced and the results observed before any more interventionist approaches are pursued.

With regard to the second arm of the problem statement, ACCIONA does not agree that today congestion risk is materially impacting the cost of capital faced by project developers and therefore that reforms to firm up transmission access are required. In fact, the reverse could be true where priority access makes it harder to assess during the development cycle where a project will fall in a queue or to which tier it will be assigned once connected. The outcomes of which would be highly significant if that priority turns out to be lower than anticipated, with the project bearing a far larger share of congestion risk that it would under today's open access regime.

Embedded in the rationale for priority access is the theory that over the longer term less renewable capacity will be required to meet Australia's decarbonisation objectives because better project siting decisions will mean that more of the energy produced from the projects that *are* built will reach the grid. This would lower the overall cost of the transition. However, this ignore today's reality where locations that achieve the trifecta of a strong energy resource, accommodating landholders and community, and available transmission capacity are highly valued and not unlimited in number. It ignores the extended and repeated delays in the build out of new transmission capacity. Against this background, we shouldn't legislate to optimise transmission at the expense of the other priorities which will ultimately bring more new capacity into the market at a lower price.

It is a reality that congestion will be feature of the grid as it transforms given the level of new renewable energy build required this decade and next. Yet priority access would likely stymy investment in a large proportion of projects. Consider a congested site where up to five identical wind farms might locate. The congestion burden carried by the fifth wind farm under priority access is orders of magnitude greater than under open access. Under open access, four or five wind farms could be built. Under priority access, it would be difficult to build three and certainly not four. Given that project developers will not know their exact queue position before incurring significant development costs, securing investment capital to even start that process will become increasingly challenged.

Beyond investment impacts, the ESB and the various studies commissioned to assess the option openly acknowledge that priority access would introduce decidedly poorer outcomes from a dispatch efficiency perspective, compromising the market's ability to clear the lowest cost combination of generation and ultimately increasing costs to end-

use customers. This outcome seems hard to justify given the ambiguous rationale for introducing the change. It also introduces an incumbency advantage that seems to work against broadscale ambition to increase the amount and pace of investment in new renewable energy.

The consultation paper sets out a range of difficult issues to be resolved around how queue positions are assigned, how priority is applied, how long it lasts, what happens when it ends, what governance arrangements need to be established to oversee the framework, what these might cost etc. In ACCIONA's opinion, the rationale for commencing down this path, investing significant time and resources in attempting to resolve all these complexities in a way that gives investors sufficient certainty and doesn't add undue cost to end-use customers via new agency responsibilities and architecture – not to mention implementation costs – has simply not been established.

The proposal sets enormous store on the CRM undoing the harms of priority access. However, ACCIONA considers it vital that the CRM remain truly optional and that market participants not be compelled to participate simply to overcome inefficient dispatch manufactured through a priority access regime.

Relying on the CRM to undo the harms of priority access also introduces new gaming risks. It hands a group of generators an advantage when congestion binds and allows them to trade it away at a price in the CRM. Those generators could conceivably bid in a way that causes or exacerbates congestion without any intention of honouring those bids. Whilst it is proposed that the Australian Energy Regulator manage this risk, potentially through updated bidding guidelines, surely it is only worth introducing this perverse incentive where the benefits to consumers of the overall reform are likely to be significant. ACCIONA does not consider the case for change to have been sufficiently established.

Congestion Relief Market

As stated above, ACCIONA does not support the introduction of a CRM as a salve for the inefficiencies created by a priority access model. Any CRM must remain truly optional so that generators can continue to bid and be dispatched in the energy market as they do today and continue to face and be settled at the regional reference price. This limits impacts on existing long-term energy contracts and enables a separate market in congestion relief to develop in locations and between market participants where there is actual benefit.

In a high-VRE system, the most likely scenario in which congestion relief trading might beneficially emerge is between storage / scheduled loads and generators (rather than between generators with only marginally different short-term costs). Without a resource constraint, battery energy storage currently has relative freedom as to where it can locate and thus might generally avoid congested parts of the network. And when it is sited behind a constraint, it may be incentivised to exacerbate rather than alleviate the

constraint. Therefore, a CRM could provide a new incentive for storage to locate behind and operate to relieve a point of congestion.

Given this scenario-specific application, any CRM must be designed and tested with a view to minimising the implementation costs which will be borne across the industry. The CBA currently assesses the CRM implementation task as of 'very large' complexity with a 42-month implementation timeframe. Therefore, ACCIONA encourages more detailed design, costing and testing work be undertaken and for this to be contrasted against realistic expected participation rates, before a decision on whether to proceed with a CRM is made.

In a similar vein, ACCIONA would welcome further, more detailed worked examples on how a potential CRM would operate as a stand-alone reform (that is, decoupled from priority access) to assist industry in engaging on the model. This would ideally include further detail on some of the design choices presented in the consultation paper, particularly on quantity limits and bid/offer spreads. In principle, it seems desirable for CRM participants to have options which enable them to manage their exposure given that CRM outcomes play off against energy market prices and dispatches which are not known at the time CRM bids are placed.

Conclusion

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

We look forward to further engaging on the 'enhanced information' rule change which we expect to materially improve the siting decisions of project developers and investors.

In contrast, we consider implementing a 'priority access' model would be ill-advised considering the negative outcomes for dispatch efficiency, uncertainties it introduces for project developers and the real risk that it would inadvertently slow rather than accelerate new renewables investment.

Further detailed design and testing on a possible CRM would assist industry to better engage with the proposal and contribute thinking on whether it could be a worthwhile *stand-alone* reform.

To reiterate our earlier comment, there is no shortage of capital ready to be invested in the Australian market in new renewable energy capacity. We urge governments and market bodies to focus their efforts on the more fundamental issues impacting the connection of new projects to the grid, including expediting the overall transmission build out, removing inefficiencies from planning and permitting frameworks and accelerating connection processes.

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.

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Yours sincerely,

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