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ESB

By email: [info@esb.org.au](mailto:info@esb.org.au)

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**RE: Transmission Access Reform consultation paper<sup>1</sup>**

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 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

Efficient investment in transmission is critical for decarbonising the grid, for managing the closure of aging coal power stations, and for meeting Australia's global commitments on climate change. Transmission needs to be delivered quickly and competitively, noting that transmission is a relatively small component of overall

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<sup>1</sup> <https://www.datocms-assets.com/32572/1682894111-esb-tar-consultation-paper-may-2023-final.pdf>

costs<sup>2</sup>, a *lack* of transmission (and other enabling system services) will result in very high prices, as has been seen in South Australia. As the AEMC has noted, the risks and cost impacts of insufficient non-energy services are asymmetric.

It is therefore important to facilitate efficient investment in new transmission. This includes the proactive development of REZs by the states to unlock new resources but also generator-led transmission upgrades, where generators locating in valuable areas, including possibly causing congestion, shows where a “risk free” transmission upgrade can be developed *if* it is beneficial to consumers. The volume of transmission build required will require broad participation and cooperation, including from private parties through contestable projects.

We strongly support the Ministers’ decision to cease work on all forms of Local Marginal Pricing, and to focus on the Enhanced Information package which will help all participants – transmission, generation, and storage – make informed decisions.

We thank the ESB for undertaking detailed design of the additional proposed models, Priority Access and the Congestion Relief Market (CRM).

Having reviewed the analysis (and noting that the cost-benefit study has not been released but was based on NERA modelling which has previously been found to have significant flaws<sup>3</sup>) we consider that Priority Access will significantly increase complexity for limited benefits, and risks increasing emissions and costs by deterring efficient investment.

CRM also results in significant complexity to both participants and AEMO, and it is not clear that the benefits outweigh the implementation and ongoing costs. Any decision must be predicated on the CRM being a *voluntary* scheme which does not (as the ES implies) lead to a de-facto local marginal price outcome for all participants.

We provide further commentary below, and also support the Clean Energy Council’s submission, as the peak body for energy investors in the NEM.

### **Priority Access**

In Iberdrola Australia’s previous submission, we supported further analysis of the Priority Access mechanism, and we thank the ESB for undertaking a comprehensive review of the design options.

Based on this analysis, we do not support progressing the Priority Access models.

Critically, Priority Access does not align with the upcoming NEO, as it focuses on *restricting* new clean energy investment, rather than enabling it, and provides preferential treatment to incumbent, high emissions generators.

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<sup>2</sup> Roughly 7% of energy costs to 2050, based on the AEMO Step Change scenario of the 2022 ISP

<sup>3</sup> <https://www.aemc.gov.au/sites/default/files/2020-10/EPR0073%20-%20Snowy%20Hydro%20submission%20COGATI%20interim%20report%2019Oct2020.pdf>

Our comments are below.

### *Impact on investment*

While Priority Access provides insurance against new entrants eroding existing access, it also exposes those new entrants to all subsequent transmission congestion. To date, a lack of forward planning around emerging constraints and insufficient investment in system services has been far more impactful to investments than over-investment by generators.

If new investors are forced accept all subsequent risk, this will significantly reduce the efficient utilisation of existing lines and risk chilling new investment more broadly. For example, if AEMO identifies a new grid-wide constraint similar to the system strength constraints in South Australia or a new interconnector limit, the new investments would be the first to be impacted. In particular, the system strength constraints in SA gave all generators the same coefficient – if this occurred in future constraints, the newest generators would be curtailed first regardless of any system strength remediation or charges paid.

The “tier” models (grouping investments according to a centrally agreed volume, by year of connection, etc.) mitigate this risk on an individual project level, but all new investment is still impacted. These models also introduce significant complexity to the connections process, particularly if a third party is required to decide the volume and allocation to those tiers.

### *Emissions*

The ESB has not identified any opportunities for Priority Access to increase the uptake of renewable energy or decarbonise. In fact, the ESB’s own example (Appendix D) highlights that Priority Access will *increase* emissions compared to the status quo (or, alternatively, increase coal profitability if Priority Access and CRM are implemented, at the expense of renewable generators).

It is not appropriate that coal generators be given Priority Access to the network. Not only will it increase emissions, it will prevent the proactive investment of new generation near to the existing coal power stations in anticipation of upcoming closure. Such investment will be important for creating new jobs and investment in those regions.

We note that some stakeholders such as the Australian Energy Council have argued for “technology neutrality” and for access for the “lifetime of the connection”, at the expense of increased emissions and market efficiency. This allows incumbent coal power stations with non-credible announced closure dates to hold transmission hostage until they choose to close (and potentially lead to significant disruption if technical failures lead to early closures).

Priority Access is therefore unlikely to align with the inclusion of emissions reduction in the NEO as agreed by Ministers. If Priority Access were implemented in some form, it would be critical that emissions intensive coal generators do not benefit from Priority Access over clean energy alternatives.

### *Complexity*

We note the resulting impacts on NEMDE now appear very complex compared to the size of the problem. This includes making the Priority Access “hard” enough to deliver value but “soft” enough to ensure reliability, the impact on dispatch efficiency leading to higher costs to consumers, and the complexity of multiple floor prices or multiple dispatch runs. We further note that the ESB may be oversimplifying the complex nature of constraints in the NEM – constraints other than thermal limits do not necessarily lend themselves to simple models (and could be an area of further analysis in the Enhanced Information package).

#### *Transmission investment signals*

We note again that congestion is highly efficient from a consumer perspective. Congestion provides clear signals as to where there is quality resource and land availability, and any subsequent transmission will only be developed if it is least cost to consumers. That is, it becomes a risk-free REZ investment.

We note that the NSW government has identified that some level of congestion is efficient in its REZs, noting that transmission has a cost. Greater congestion leads to greater utilisation of those lines, which must be balanced against the reduction in total energy delivered.

#### *Conclusion – Priority Access*

In summary, we consider that the significant work by the states on their REZ and access frameworks coupled by the enhanced information provisions proposed by Iberdrola, the Clean Energy Council, plus investment supported by the Rewiring the Nation plan will provide sufficient clarity for investors to continue to invest.

However, risks of transmission delays may impact on investment cases. We support making key transmission projects contestable to ensure costs are kept low and delivery dates remain competitive in light of the significant volume of build likely required.

## CRM

As with Priority Access, we thank the ESB and AEMO for providing greater detail on how these models would work in practice. We note that the potential benefit of CRM is likely in three areas<sup>4</sup>:

- Addressing inefficiencies introduced by Priority Access, if that were implemented;
- Allowing VRE projects with different values of delivered energy (e.g., with different PPA prices or contracts) to arbitrage around constraints; and

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<sup>4</sup> CRM would also address the theoretical production cost differences of which project is used behind a constraint. However, this is currently small (~\$10m/year) and will be less material as coal plant exits and all units have the same SRMC.

- Allowing energy storage or other loads to access energy that would otherwise be curtailed.

These potential benefits need to be traded off against the significant cost and complexity of implementation and the potential small benefits available to individual participants. The ESB has raised important points around the treatment of FCAS, reliability outcomes, and settlement residue allocation.

We are also concerned that the ESB has framed CRM as an essential feature of implementing Priority Access and that once a participant has “opted in they cannot opt-out again.” While we expect this can be managed in the short-term through bids, the core principle of the proposed CRM was a voluntary market that would be strictly better for participants. The ESB implies that all participants would ultimately be exposed to local pricing, which is not consistent with the Ministers’ decisions.

If the ESB expects that widespread participation is required for the success of either CRM or Priority Access, this is an argument against both options.

If CRM were progressed, opting in or out must be frictionless (such that participants are not forced to develop or continue bidding systems if it is not beneficial).

## Conclusion

We look forward to continuing to engage with the ESB on this issue. Please do not hesitate to contact me if you have any questions on [joel.gilmore@iberdrola.com.au](mailto:joel.gilmore@iberdrola.com.au) or 0411267044.

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