

13 November 2024

Mr Mark Feather
General Manager Policy
Australian Energy Regulator
GPO Box 3131 Canberra ACT 2601

By email to: AERPolicy@aer.gov.au

Dear Mr Feather,

Feedback for the preparation of the AER's amended Ring-fencing guideline (electricity transmission)

Iberdrola Australia welcomes the opportunity to provide feedback to the AER to assist it with the preparation of the Ring-fencing guideline for electricity transmission.

Introduction

Iberdrola Australia delivers reliable energy to customers through a portfolio of wind and solar capacity across New South Wales, South Australia, Victoria, and Western Australia. Iberdrola Australia also owns and operates a portfolio of firming capacity, including open cycle gas turbines, dual fuel peaking capacity, and battery storage.

Iberdrola Australia has a twenty-year track record of pioneering the energy transition in Australia. Iberdrola Australia is part of the global Iberdrola group. The Iberdrola group has become one of the leaders in the Australian renewable energy market after acquiring Infigen Energy in 2020.

With more than 120 years of history, the Iberdrola group 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.

Iberdrola is also recognised globally by its experience building, operating and maintaining electricity lines, substations, transformation centres and other infrastructure to transfer electrical power from the production centres to the end user across jurisdictions in Europe, UK, US and South America.

Overview of our submission

We welcome and fully support the AER's review into the amendments to the ring-fencing guideline for electricity transmission. We believe it is necessary for the AER to scrutinise negotiated transmission services, particularly the contestable components of the connections. This scrutiny is

crucial due to the dependence on TNSPs for efficient and cost-effective connections, without which the new generation needed to deliver the clean energy transition will not progress.

In all areas of market design, Iberdrola Australia recognises there must be a balance between theoretical economic efficiency and practical realities of delivering the transition at a pace required. This therefore requires a careful balance between facilitating (but regulating) natural monopolies (i.e., the networks) and allowing for free and effective competition. Contestability by third parties will help deliver lower cost, faster, or more efficient services, where transaction costs are minimised, and third parties have access to the same information as the incumbent NSPs. Even a small reduction in the cost of negotiated services can have a significant impact on the project. It would then be up to specific negotiations between the developer and the service provider as to how risk is allocated and managed, which may be more commercially flexible than with the NSP.

In general, competition is necessary for developers to receive the best value for money for contestable third-party connections. This requires a level playing field for all service providers, and it is important that the AER has oversight of negotiated services with appropriate ringfencing requirements. We have provided some identified issues below. However, given the pace of the transition, we encourage the AEMC to consider a broad range of potential outcomes if ringfencing is not applied to negotiated transactions.

We therefore recommend that ring fencing provisions should apply to all negotiated TNSP transactions. This will ensure that there is competition and that the competition for contestable works is a fair competition with a level playing field. Appropriate ringfencing would require at least separation of data, computer systems (such as control rooms), and staff, but also potentially offices.

We support the points raised in the Clean Energy Council's submission.

Examples of potential issues

To date, it is common for NSPs to bundle their negotiated services with contestable services. This restricts competition. In some cases, this can involve inconsistent discussions about which specific components of agreements are contestable, with little clarity under the NER. This ultimately requires clarity over what is included in the contestable IUSA process and what is part of the non-contestable IUSA, either in the AER's guidelines (preferable) or clearly articulated in the NER.

Other ways that NSPs can preference their own businesses are through non-price incentives, such as process timings and incentives. For example, in some cases early works are only made available if the NSP is selected for contestable services, which is not consistent with a clear separation of the regulated and commercial businesses. Alternatively, detailed design work can be delayed until later in the process if (and only if) the NSP is selected for contestable services. It is not established that these procedures are necessary, or that the value is returned to the developer rather than retained by the NSP (through higher cost offerings).

NSPs can also impose cumbersome requirements in their functional specification documents that can limit innovation and competition. Effectively, the NSP can limit the ability to provide cheaper services because only certain equipment is permitted by the NSP. For example, only certain brands of high voltage equipment may be permitted, or additional redundancy requirements imposed, with no ability for the generator to negotiate alternatives (such as switching off in the event of rare comms failures) that might be more economical.

Other examples relate to the procurement of system strength services.

This oversight should extend beyond connections through to service offering such as system strength services to ensure that these services are value for money and that the NSPs have explored all avenues for achieving the net zero objectives.

- Currently, NSPs do not consider the provision of synchronous condensers (sync cons) as non-network offerings because NSPs can purchase these themselves. Contestability and transparency requirements should require System Strength Service Providers (SSSP) to consider third parties for both *non-network options* and the supply of equipment for *network solutions* like synchronous condensers if these can be delivered faster and cheaper than the existing NSPs. Suppliers of these non-network solutions should be able to recover costs for early works, just like the NSPs are permitted to do so.

We recognise that there may be time critical or specific processes where contestability is unlikely to be successful, but this should be on an exception basis. Many of these investments have long lead times. This means it is critical that potential gaps are identified well in advance of their delivery date, so that alternative options and providers can compete.

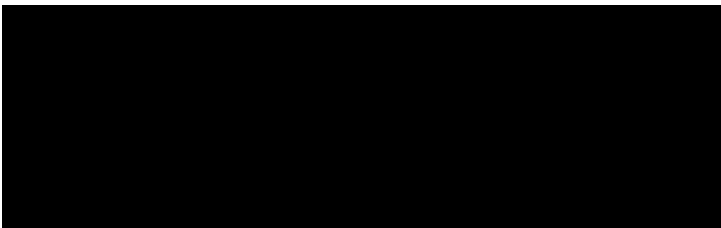
In addition, as only SSSPs can request system strength services, in doing so they ask for commercial information from the service provider which means that a third party provider can provide commercial information to the NSPs who could then pass this information to their contestable arms. This means that people responding to SSSP providers tenders can be providing commercial information to their competitors. This creates a barrier to participating in these tenders.

Any data provided to an SSSP should only be for the purpose of evaluating a specific service. This data should not be made available for other processes, including future tender or RIT-T rounds, to ensure that participants are incentivised to provide clear and up to date information.

We would appreciate it if we could meet with the AER to explore these, and other matters, in detail. If you have any questions, please do not hesitate to contact Maheshini (Mesh) Weerackoon via email at [REDACTED] or phone on [REDACTED] [REDACTED]

We look forward to further consultation and engagement on the Ring-fencing guideline for electricity transmission.

Yours sincerely

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Ricardo Da Silva

Executive General Manager Business Development