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General Manager, Strategic Policy & Energy Systems Innovation
Australian Energy Regulator
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By email to: ringfencing@aer.gov.au

Iberdrola welcomes the opportunity to provide a submission to the AER on the Ring-fencing guideline (Electricity transmission) interim review.

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 capitalization.

In summary, Iberdrola supports stronger ringfencing provisions on Transmission Network Providers to promote innovation, transparency and efficiency in the delivery of new transmission.

Fit-for-Purpose Ringfencing guidelines are needed to support the changing environment

We agree with the AER that the market context in which TNSPs operated in when the original Ring-Fencing guideline was developed in 2002, are very different from the market context of today. The pace of change in the power system is accelerating at a much faster rate than expected with coal power generation exiting or announcing earlier exist. Over the past two decades, transmission companies have primarily focused on maintaining the large existing electricity grid rather than building new transmission.

As highlighted by AEMO in the Draft 2022 ISP, we need to build more than 10km of transmission projects over the next 10 years. As a result, the scale and scope of TNSPs has changed significantly.

With that context in mind, Iberdrola supports AER's view *"that the current guideline needs updating so it is fit-for-purpose for the way in which TNSPs are currently operating and are expected to operate in the future."*- Page 9- Section 1.2.2

Current Distribution Ring Fencing Guideline is an appropriate starting point

Stronger ring-fencing provisions should be imposed and we support the views that current Distribution Ring fencing guidelines as an appropriate starting point.

As a minimum, current measures under the Distribution Ring Fencing Guidelines that need to be carried forward into the Transmission Ring Fencing guideline include legal separation, separate accounting and cost allocation.

TNSPs are currently permitted to carry on generation, distribution and/or retail activities up to a cap of 5% of their annual revenue. Given the expected increase in transmission investment and so revenue, the absolute value of this cap will also increase. Without strong ringfencing, these arrangements will stifle innovation and competition in current and emerging network services.

The Guideline must address the risk of TNSPs cross-subsidising contestable services with revenue from their regulated transmission services and using the information gained as a regulated business to discriminate and provide an unfair advantage to its business or affiliate in a competitive market.

Introducing competition to deliver efficiency and innovation in large projects

There is already a considerable degree of contestability applied in the provision of transmission in the National Electricity Market (NEM). The current role of the TNSP encompasses planning and design, investment and construction, ownership and operation of transmission networks. The degree of contestability for existing key types of transmission is applied differently across the NEM. For example, in Victoria, AEMO undertakes the planning role, with investment design and construction being contestable, but the local TNSP owns and operates the network. In NSW on the other hand is introducing contestability via the Network Operator procurement for Renewable Energy Zones (REZs). The current arrangements, while there is some degree of contestability, have not been seriously challenged as TNSPs have primarily focused on maintaining and upgrading existing electricity grid rather than building new large transmission lines.

The new transmission build required is unprecedented and will require contestability to:

- Attract private finance and potentially alleviating budget constraints in the delivery of transmission;
- Achieve greater efficiency in the construction, operation and maintenance of transmission assets.
- Encourage innovation and idea generation, improving delivery and long-term efficiency.

This will require transparency through stronger ring-fencing provisions on TNSPs in the same way that was applied on the Distribution Networks to deliver the scale and scope of transmission build needed for Australia.

Thank you for the opportunity to comment and we look forward to continuing to work with the AER to refine the design of the Ringfencing Guidelines. If you would like to discuss any of the issues raised in this submission, please contact me on +61 (0)436 127 180.

Yours Sincerely,



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