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Mr. Mark Feather
General Manager, Strategic Policy and Energy Systems Innovation
Australian Energy Regulator
GPO Box 520 Melbourne
VIC 3001

By email to: AERringfencing@aer.gov.au

Dear Mr. Feather,

Ring-fencing Guideline Electricity Transmission – Draft Guideline

Iberdrola Australia welcomes the opportunity to provide a submission to the AER on the Draft Ring-fencing Guideline Electricity Transmission.

The Iberdrola group has become one of the leaders in the Australian renewable energy market after acquiring Infigen Energy in 2020. The company operates more than 800 MW of solar, wind and storage batteries in Australia and has a significant portfolio of projects, of which 453 MW are under construction and more than 1,000 are in various stages of development.

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. The company operates more than 800 MW of solar, wind and storage batteries in Australia and has a significant portfolio of projects, of which 453 MW are under construction and more than 1,000 are in various stages of development.

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.

The Iberdrola group has extensive experience in offshore wind projects and is ready to support the Government deliver their target. Iberdrola has over 1,250 MW of operating offshore wind projects across ten regions, with a further 7,100 MW under construction, and a pipeline of over 25,000 MW. We also work closely with our local communities and partners to support local businesses and industry, including supporting local supply chain opportunities.

Iberdrola is also recognised globally by its experience building, operating and maintaining electricity lines, substations, transformation centres and other infrastructures to transfer electrical power from the production centres to the end user across relevant jurisdictions as Spain[1], UK[2], US[3] and Brazil[4]. Iberdrola currently operates

[1] https://www.i-de.es/home
[2] https://www.spenergynetworks.co.uk/
[3] https://www.avangridnetworks.com/wps/portal/avangridnetworks/home
[4] https://www.neoenergia.com/en-us/about-us/lines-of-business/distribution/Pages/default.aspx

one of the world's largest power distribution systems, comprising more than 1.2 million km of distribution lines and more than 4,400 substations, which carry electricity to more than 34 million people around the planet. 40 % of the group's organic investment for the period 2020-2025 (more than €27 billion) will go to the Networks area. Iberdrola Australia is actively looking to fully roll-out these capabilities in country, demonstrating its strong commitment to Australia's energy transition.

We welcome and fully support the AER Draft Ringfencing Guideline Electricity Transmission. We are pleased to see that the ringfencing guidelines for electricity transmission have largely been brought into line with the more rigorous Ringfencing Guidelines Electricity Distribution.

We agree with the AER that certain clauses should not be subject to waivers, however we are disappointed to see that bar a few limited cases related to performance and reporting, TNSP can apply for waivers to retain the same offices, same staff and same branding as the unregulated affiliate and it is difficult to see how this will prevent discrimination or the passing of information between regulated and unregulated parties.

Waivers should only be issued when necessary and each TNSP must demonstrate that they have gone to the market for services as part of the assessment criteria before being granted a waiver. Benchmarking against market services is required to ensure beneficial outcomes for consumers and to retain a competitive environment. There should be no presumption that the TNSP (or DNSP) can deliver new and innovative approaches and services any more efficiently and cost-effectively than a third party. This is particularly the case for NSP-owned batteries. TNSP-owned batteries should not be covered by a class waiver or a streamlined waiver process. Adding storage to the electricity system is a priority and developers need to have confidence that their own investment is not being undermined by TNSP leveraging their regulated monopoly position to stifle connections, access to the market and competition.

As has been shown, the streamlined waiver process for DNSP-owned "community" batteries and the recently initiated class waiver for any of the federally funded 400 community batteries is unlikely to have any benefits for consumers. DNSP are rapidly rolling out "community" batteries, with customers cover the cost of the initial investment and the operating costs, while the DNSP is seeking to secure commercial income by providing services to the Market Operator, which will not be shared with customers to offset the increase in the Regulated Asset Base because the income will be below the "shared services" threshold. The AER has granted the waivers on the presumed basis that the income will fall below the threshold but will not known until after the fact.

We believe that all waiver applications and the decision should be public regardless of the matter maybe deemed "inconsequential". Even extensions of waivers could have serious market implications and we encourage the AER to ensure the waiver application and decision process are fully consultative and transparent.

AER Powers

We encourage the AER to urgently submit a rule change request that would seek to expand their ring-fencing powers to include the ability to specifically ring-fence negotiated transmission services, in addition to prescribed transmission services. It is important that the AER has the ability to scrutinise negotiated transmission services, particularly the contestable approach to connection arrangements, because of the dependence on TNSP for efficient and cost-effective connections, without which the new generation needed to deliver the clean energy transition will not progress.

Further, we would suggest not waiting until the new arrangements are shown to be inadequate, but to progress a rule change request as soon as is practicable to ensure that TNSP do not use their monopoly position in the provision of negotiated transmission services to act in a discriminatory manner, impacting the market for contestable transmission connection services.

Penalties for non-compliance

We believe that the revised Ringfencing Guideline Electricity Transmission must be underpinned by a penalty regime, just as applies for the distribution networks. This would not only ensure that the treatment of DNSP and

TNSP is consistent with regards to enforcement of the ringfencing guidelines, but gives Australians, industry and investors the confidence that the transmission networks will behave appropriately as efforts to decarbonise the National Electricity Market accelerate and as approaches need to be effectively coordinated, while delivering the future quickly and at reasonable cost.

Roadmap of actions

It is essential that fit-for-purpose ring-fencing guidelines for electricity transmission are developed to promote competition that will be needed to underpin the delivery of new transmission in the NEM.

While there is already a degree of contestability applied in the provision of transmission in the NEM for specific connection assets, the current regulatory framework does not broadly support contestability in the delivery of new large-scale transmission projects, as detailed in the Australian Energy Market Operator's Integrated System Plan (ISP).

A consistent framework for the contestable delivery of new transmission is urgently needed as it will ensure that the unprecedented new transmission build required by the ISP will:

- Reduces certainty for those considering investing in transmission in Australia
- 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.

As part of the final decision, the AER should develop a roadmap of key actions that will set out how contestability for new transmission will be delivered, how and when the rule change will be submitted and delivered and the development of a civil penalties framework for non-compliance with the ringfencing guidelines, working with industry to expedite these key outcomes.

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 [redacted].

Yours Sincerely,

[redacted]

Ricardo Da Silva Alvarez

Networks Development Manager, Iberdrola

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