

19 August 2022
Ms Anna Collyer
Chair
Australian Energy Market Commission

Dear Ms Collyer

Project EPR0087: Transmission Planning and Investment Review – Contestability Options Paper

We strongly support the AEMC’s exploration of the options to support the timely and efficient delivery of major transmission projects through contestable approaches. New transmission is essential to underpin Australia’s transition to a clean energy future and we are pleased to provide this submission in response to the Contestability Options Paper.

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 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 Spain¹, UK², US³ and Brazil⁴. Iberdrola currently operates 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.

Existing regulated TNSP model is no longer fit for purpose

AEMO’s Step Change scenario predicts an additional wind and solar output of 138.5TWh by 2035 and 197TWh by 2042. The Draft 2022 ISP also refers to 10,000 km of new transmission being required by 2030 to ensure a smooth transition and connect the additional generation capacity needed to replace the retiring coal power stations.

Over the past decade or more, the primary focus of the existing regulated Transmission Networks has been on maintaining and upgrading existing electricity grid, rather than building large new transmission lines, which has not been undertaken for many decades. One of the key limitations for

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>

TNSPs to date has been the speed of the regulatory approval processes for these new infrastructure projects.

Additionally, these large new transmission projects represent a significant proportion of the TNSP regulatory asset base making it difficult for the TNSP to access private capital and finance on an individual project basis⁵. The requirement for any single transmission project to pass a range of regulatory hurdles is a further impediment to engaging with private capital. A contestable transmission delivery model would provide clarity to infrastructure investors that will more rapidly deliver projects.

Therefore, we believe that the existing regulated monopoly arrangements for Transmission networks are not sufficient to deliver the scale of investment and build needed in the timeframes required. Opening the transmission build to competition will attract the funding, financing and resourcing required to deliver these major projects.

Introducing competition to deliver efficiency and innovation in large projects

There is already some 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. While the current arrangements provide some degree of contestability, they have not been seriously challenged.

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

- Encourage innovation in both technical approach and delivery, promoting long-term efficiency and reducing energy costs to customers
- Attract private finance and capital quickly and efficiently, potentially alleviating financing constraints in the delivery of transmission by regulated TNSPs
- Achieve greater efficiency in the construction, operation and maintenance of transmission assets
- Signal that Australia is “open for business”, ensuring that resources (material and personnel) are earmarked for Australia’s “Rewiring the Nation” transmission projects.
- Provide a more rapid delivery of new transmission to ensure Australia meets climate targets

This will also 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.

Timing of the Review needs to be expedited

While we strongly support the need to develop a nationally consistent framework for the contestable delivery of new transmission, the proposed AEMC process to explore the appropriateness of contestability for new transmission will take too long to make a meaningful difference to the speed, efficiency and cost of the construction of the current Integrated System Plan (ISP) projects. Our estimate is that, based on the current timelines shared by the AEMC⁶, a contestability framework could not be implemented much before the end of 2025 and given most ISP projects are already underway

⁵ <https://www.aemc.gov.au/sites/default/files/2022-07/Transmission%20planning%20and%20investment%20review%20-%20Stage%20%20draft%20report.pdf>, Section 2

⁶ https://www.aemc.gov.au/sites/default/files/2022-07/public_forum_-_contestability_-_26_july_2022_1_0.pdf, slide 11

using the current non-contestable approach this limits the opportunity for contestability to deliver immediate benefits.

Both Victoria, through its routine transmission planning and the newly proposed Victorian Transmission Investment Framework (VTIF), and New South Wales, through the Electricity Infrastructure Investment Act (2020) have embraced contestability to deliver new transmission. The decision that contestability delivers benefits to customers, both in terms of speed of delivery and cost, has already been made. Both Victoria and NSW jurisdictions have made the decision that contestability provides benefits to customers in terms of speed and efficiency to deliver new transmission and reduce costs to electricity customers. ⁷ Specifically, in the recent Victorian Transmission Investment Framework, it states: - *contestability delivers lower costs to consumers, efficient & timely delivery.*

We encourage the AEMC to focus on the model for contestability for new transmission in the NEM, rather than whether contestability is desired or required. Making the decision now that contestability is needed will allow stakeholders to put efforts into expeditiously developing the model for the NEM.

National approach to contestability is key

While key states are pushing ahead with their own models for contestability, we still support a national framework for contestable delivery of new transmission and the central role of the AEMC in developing this framework. A national contestability framework ensures that there is a consistent model for new transmission delivery, rather than a patchwork jurisdictional approach. This will draw private investment to transmission projects and the sooner the national framework can be implemented the sooner the benefits of contestable delivery, detailed above, can be fully realised.

Assessment of the models against the criteria

Models for contestability
Strawperson 1: Based on current DNA & IUSA framework, with shared jurisdictional & TNSP management
Strawperson 2: Based on current NSW model for REZ, with jurisdictional management of process
Strawperson 3: Based on current Victorian model, with AEMO planning & declared functions
Strawperson 4: Based on UK model for offshore & onshore windfarm connections

We agree that the AEMC has identified the key processes and subtasks in the delivery of transmission lines⁸, and we believe that all aspects of transmission, can be delivered contestably, while still ensuring the security and reliability of the electricity system.

Strawperson 1 offers little increase in contestability over that already offered by the TNSPs, who typically tender for design and construction, but increases the complexity of building new

⁷ <https://engage.vic.gov.au/download/document/27045> - p38 and p40

⁸ https://www.aemc.gov.au/sites/default/files/2022-07/public_forum_-_contestability_-_26_july_2022_1_0.pdf, slide 18.

transmission. Currently TNSPs typically competitively procure 70-80 % of a project, covering the detailed design, construction and debt financing⁹.

Strawperson 3, based as it is on the current model in Victoria, has yet to deliver genuine competition, which is why ringfencing for TNSPs is so critical. Further, Victoria has developed an entirely new approach to support transmission investment, the Victorian Transmission Investment Framework (VTIF)¹⁰, which necessarily implies that the current model is not fully fit-for-purpose.

Strawperson 4 is based on the as yet untried UK model for onshore projects and has taken several years to develop. This model should not be pursued further as an option by the AEMC since it will be highly complex to deliver and implement. Further, given the model's complexity and novelty in Australia (and the UK) implementation would be lengthy and would be unlikely to materially impact on current ISP project delivery.

Iberdrola supports Strawperson 2 with a clear focus on contestability around construct, finance, operation, and maintenance with clear ownership on the infrastructure. This model is also likely to incentivise innovative approaches and optimisation across the full value chain of transmission projects. The ISP, and/or any other roadmap produced by relevant planning authority, would identify the solutions that could be contestably delivered, overseen by a jurisdictional planning and delivery body that would lead on community engagement and preparatory activities.

Regardless of the model, it is critical that the prescribed model provide certainty to investors on the project pipeline. The timing and transparency for projects are needed, resourcing and assessment criteria is critical to any contestable model put forward. Iberdrola also suggests there needs to be allowance for unsolicited projects to be proposed and assessed.

The Central Planning body must have appropriate resources and skills to ensure there is a pragmatic approach to delivery. Currently the resources are mostly technically (engineering) focused with limited experience in commercial project delivery. This adds significant challenges in both project assessments but also delivery creating delays and adding significant unnecessary costs.

Assessment Framework for Contestability models

We think that the assessment framework captures the broad aspects that need to be considered. We consider that a further trade off, timeliness vs implementation, is critical. A balance must be struck between the time it takes to develop and implement a contestability framework and the need for timely delivery of transmission (this is also linked to efficiency). As we have already stated, waiting until mid- to late-2023 to start work on developing the contestability framework will have negative impacts on the timeliness and efficiency of the delivery of the currently required new transmission.

We encourage the AEMC to embrace the models for contestability in Victoria and NSW in the interim, as this will not hamper the urgent delivery of new transmission, allowing the contestable approaches to mature and provide valuable insights into what works and what doesn't. At the same time, the AEMC should focus on developing transitional arrangements so that the diverse approaches to

⁹ <https://www.energynetworks.com.au/resources/reports/2021-reports-and-publications/farrier-swier-transmission-contestability-principles/>

¹⁰ <https://engage.vic.gov.au/download/document/27045>

contestability lead to an expedited consistent national approach in the medium term, without detriment to the current program of transmission investment.

We would strongly encourage the AEMC to ensure contestability applies to the broadest range of new transmission projects. New transmission projects should be competitively delivered, and we would like to see consideration given to community-proponent driven new transmission projects in any contestable approach. Once AEMO, via the ISP or jurisdictional planning body has confirmed that a transmission project has passed the relevant investment test to indicate that it is in the long-term interests of consumers, and the project is above the threshold, the project must be delivered competitively. This will provide clarity and certainty to investors and proponents.

Regulatory Investment Tests

The current Regulatory Investment Test for Transmission (RIT-T) is not fit-for-purpose, particularly for transmission projects identified in the ISP. The ISP already includes a robust assessment of whether optimal development pathway and actionable projects are in the long-term interests of consumers. Repeatedly assessing the benefits of any given project, using the RIT-T with different benefit criteria and scope creates a disconnect, resulting in delays to transmission delivery. The addition of feedback loops¹¹ and the additional process under the Material Change in Costs/Circumstance rule change draft determination¹² further adds delays.

We encourage the AEMC to consider appropriate investments tests for critical new transmission and suggest that a jurisdictional body analogous to those in both NSW and Victoria and their related investment tests provide good examples. The Victorian Network Investment Test (VNIT), with a “two speed” approach is a model worth further assessment. Transmission projects identified by VicGrid as being essential to underpinning security and reliability progress through the “Least Net Cost” test to ensure that the project is delivered at lowest costs (the consumer benefits having already been determined in the VTIF plan). Transmission projects that are not essential, but may meet other objectives, would go through a more rigorous Maximum Net Benefit test to ensure that there were net benefits for consumers [REF].

Ringfencing of existing regulated TNSPs is a critical dependency

For contestability to be truly effective, the regulated monopoly TNSPs must be subject to robust ringfencing guidelines to ensure contestable approaches can be fairly delivered with genuine competition and we strong support the current work of the AER to develop ringfencing requirements for the regulated TNSPs¹³.

We note that while ringfencing of contestable providers is not discussed in the Options Paper, at the AEMC webinar on contestability (26 July 2022) it was indicated that contestable providers would also need to be ringfenced. Competitive providers are private companies without a natural monopoly and bring access to finance and innovative approaches that reduce costs to consumers. We would welcome clarification from the AEMC on the suggestion that competitive providers could be ringfenced and the supportive evidence to suggest this is required.

¹¹ <https://www.aemc.gov.au/sites/default/files/2022-07/Transmission%20planning%20and%20investment%20review%20-%20Stage%202%20draft%20report.pdf>, p46-55

¹² <https://www.aemc.gov.au/sites/default/files/2022-07/Material%20change%20in%20network%20infrastructure%20project%20costs%20draft%20determination.pdf>

¹³ <https://www.aer.gov.au/system/files/Stakeholder%20submission%20template%20-%20May%202022.docx>

We look forward to working with the AEMC to develop and deliver the contestability framework for the NEM that will rapidly deliver the new transmission that will underpin the transition to a low emissions grid, while ensuring the transition is reliable and affordable. If you would like to discuss this submission, please contact me on ricardo.dasilva@iberdrola.com.au.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'R. Da Silva', is written over a horizontal line. The signature is stylized and cursive.

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