

14 July 2023

Anna Collyer  
Chair  
Australian Energy Market Commission  
GPO Box 2603  
Sydney NSW 2000

Via: <https://www.aemc.gov.au/contact-us/lodge-submission>

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Dear Ms Collyer,

**ERC0348 Accommodating Financeability in the Regulatory Framework: Consultation Paper**

Iberdrola welcomes the opportunity to provide a submission to the AEMC Accommodating Financeability in the Regulatory Framework: Consultation Paper (ERC0348) incorporating the rule change proposal recommended by the AEMC under their Transmission Planning and Investment Review (TPIR) to resolve issues with the regulated monopoly Transmission Network Service Providers (TNSPs) financing transmission projects detailed in AEMO's Integrated System Plan (ISP).

This submission will also address the recently submitted rule change proposal from Energy Networks Australia (ENA): Ensuring the financeability of actionable ISP projects (ERC0365) that proposes a prescriptive approach to assessing and addressing financeability.

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 MWs in various stages of development.

Iberdrola is also recognised globally by its experience building, operating and maintaining electricity transmission lines, substations, transformation centres and other infrastructures

to transfer electrical power from the production centres to the end user across jurisdictions in Spain, UK, US and Brazil. Iberdrola currently operates more than 1.2 million kilometres of distribution and transmission power lines and more than 4,400 substations, which carries electricity to more than 34 million people around the planet. Forty percent of the Iberdrola group's organic investment for the period 2020-2025 (more than €27 billion) will be used to expand Iberdrola's networks. Iberdrola is actively looking to roll-out these capabilities in country, demonstrating its full commitment to Australia's energy transition.

The Iberdrola group understands the concerns raised by the Honourable Chris Bowen MP, Commonwealth Minister for Climate Change and Energy (the Minister) that there is a foreseeable risk that financeability challenges could arise for actionable ISP projects, which may impact the timely and efficient delivery of these major transmission projects.

We support the Minister's approach to address this risk by raising a rule change to introduce greater flexibility in the revenue-setting framework in the National Electricity Rules (NER) to vary the depreciation profile of assets that form part of an actionable ISP project. We believe there should be some flexibility in the revenue setting framework, in particular the depreciation profile of assets that form part of large actionable ISP projects, but we believe that changes should be assessed to ensure that they are in the best interest of consumers.

We believe rationale for the the more prescriptive rule change proposed by the ENA has already been considered by the AEMC as part of the rule determination that the AEMC provided in relation to the participant derogations sought by Transgrid and Electranet for the financeability of ISP projects, such as Project EnergyConnect (PEC) (ERC0320 and ERC0322). In the AEMC's rule determination on this issue, the AEMC determined<sup>1</sup> that the existing regulatory framework did not create a barrier to financing large actionable ISP projects including PEC. The AEMC, noted that they would expect TNSPs to pursue options to fund larger projects within the current regulatory framework by adjusting their debt to equity ratio to rely more heavily on equity investors during periods of investment and

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<sup>1</sup> AEMC, *Rule determination: participant derogation – financeability of ISP projects (TransGrid)*, 8 April 2021.; AEMC, *Rule determination: participant derogation – financeability of ISP projects (ElectraNet)*, 8 April 2021

expansion; and using alternative financial instruments including bonds and hybrid securities.

“TNSPs are free to adopt capital structures that differ from the AER’s assumptions for the benchmark efficient TNSP. This includes the flexibility to adopt a range of practices to manage financeability. In particular, stakeholders observed that the assumptions used in making and applying the RORI are solely for the purpose of estimating efficient costs and are not binding on any TNSP<sup>2</sup>.” (page 37)

Beyond the AEMC’s observations regarding the financing strategies of TNSPs, the AEMC’s primary reason for rejecting the proposed rule changes was the rule change would not benefit consumers.<sup>3</sup> In particular, the AEMC raised significant concerns that the recovery of depreciation costs as incurred would result in consumers paying for transmission infrastructure before they receive the benefits of that infrastructure. This would transfer risk burden associated with large network investment from NSPs to consumers.

We do not support the prescriptive approach proposed by ENA that would place a specific formulaic methodology in the Rules. At a time of transition “locking in” specific approaches in the Rules should be avoided and so we recommend that the AER should develop and consult on a guideline to underpin the both the development of proposals by the TNSPs and the approach taken to assessing those proposals. We do believe a review as suggested by the AEMC and the Minister should be conducted as the AER should have the discretion to determine whether any variation in depreciation profiles is appropriate and in the long-term interests of all consumers.

Iberdrola also believes that assessments of financeability should be made at the business level and not the project level. The TNSP is incentivised across the entire business to be efficient, which allows the TNSP to manage multiple projects and balance outcomes. By assessing financeability on a project-by-project basis, this will separate the project from the wider assessment of the performance of the business as a whole, while the project contributes to the RAB as a whole.

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<sup>2</sup> [https://www.aemc.gov.au/sites/default/files/documents/erc0320\\_-\\_final\\_determination\\_-\\_transgrid\\_-\\_final.pdf](https://www.aemc.gov.au/sites/default/files/documents/erc0320_-_final_determination_-_transgrid_-_final.pdf)

<sup>3</sup> AEMC, *Rule determination: participant derogation – financeability of ISP projects (TransGrid)*, 8 April 2021, pp v - vi.

We believe that it will take more than existing TNSPs to be able to support and fund the large new ISP projects. As such, we believe the market for the delivery of new transmission should be widened to other entities through contestability. Contestability would ensure that projects are built on time and efficiently without the need for special financeability rules, ensuring that Australia can meet emission and renewable generation targets, allowing the benefits of low cost, low carbon electricity to flow to customers.

Thank you for the opportunity to provide a submission to the AEMC Accommodating Financeability in the Regulatory Framework: Consultation Paper (ERC0348). We would welcome the opportunity to engage with the AEMC team to share our international experience in building electricity networks.

If you would like to discuss any of the issues raised in this submission, please contact Maheshini (Mesh) Weerackoon via email at [Maheshini.Weerackoon@iberdrola.com.au](mailto:Maheshini.Weerackoon@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.

Ricardo Da Silva  
Network Business Development Manager