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Submitted via website

RE: Transitional Services Update Paper[1]

Iberdrola Australia delivers reliable energy to customers through a portfolio of wind and solar capacity across New South Wales, South Australia, Victoria, and Western Australias. 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 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. Our global expertise positions us to deliver an integrated approach to decarbonisation across Australia, including through our hydrogen and networks businesses.

Iberdrola Australia thanks the AEMC for their ongoing work to ensure NEM security and reliability while also rapidly decarbonising, as required by Australia's state, federal, and international commitments. The Transitional Services Update Paper includes positive steps towards mitigating the risk of shortfalls in the procurement of essentials services, and the resulting high prices that can occur if we rely on units (particularly coal) that will inevitably exit the system. This includes:

- The provision of Type 1 contracts for contracting immediate security needs (3 year contracts)
- The provision of Type 2 10-year contracts for emerging technologies, which will address some of the information asymmetry around required resources. This will allow AEMO to signal where new resources are needed, and provide an appropriate signal to investors.
- A limited period for the awarding of Type 1 contracts (but see below).

[1] https://www.aemc.gov.au/sites/default/files/2023-12/ERC0290%20-%20Transitional%20services%20update%20paper_0.pdf

- Consideration of emissions targets in contracting, and transparency arragenemnts around planning.

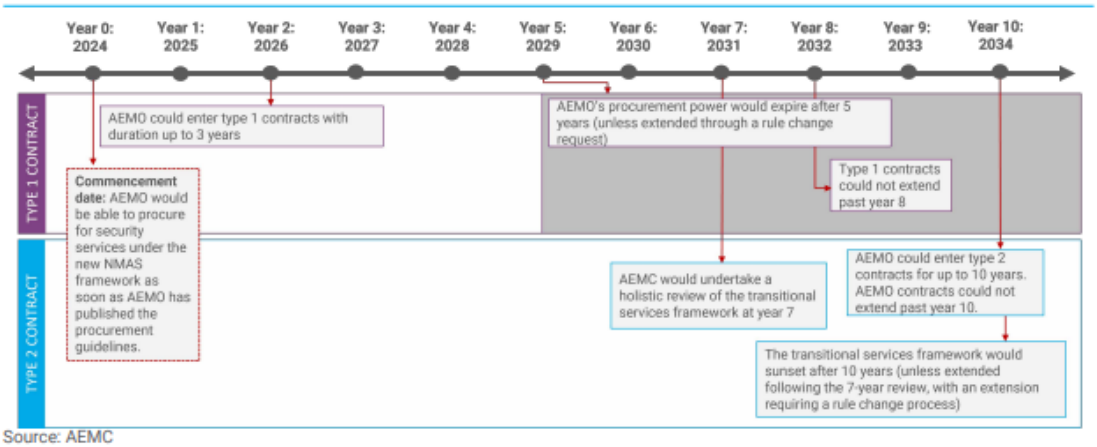
With relatively modest but critical additions, this framework can provide AEMO with efficient short-term flexibility while also providing a rules-based obligations on AEMO to address the information asymmetry around future investment needs and contract replacement resources before shortfalls emerge. We therefore recommend two changes:

- The sunset period for the use of 3-year Type 1 contracts should be reduced to December 2028; no 3-year contracts could extend beyond that date.
- A rules based obligation will require AEMO to progressively transition from Type 1 to Type 2 contracts (or other procurement mechanisms for new resources) consistent with the transition trajectory in (at least) the ISP "most likely" scenario and advice from the Reliability Panel.

1. Challenges

The AEMC's proposed timeline is not consistent with *operating the grid* under the national 82% renewable energy target or state renewable and emisisons targets.

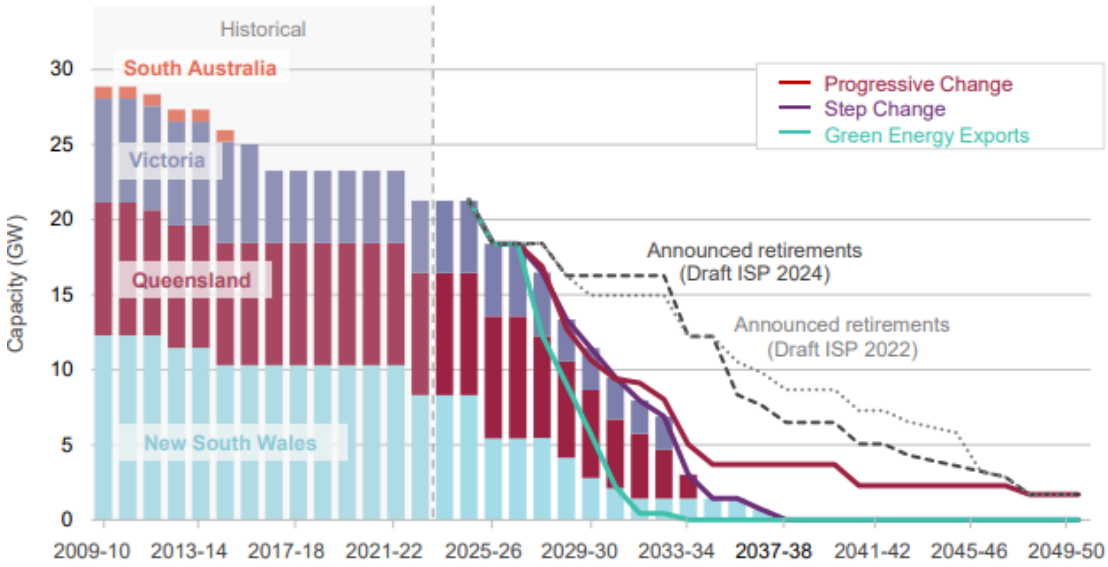
Figure 2.1: Timeline of the transitional services framework



Source: AEMC

Under the AEMC's proposal AEMO would be able to procure *all* services from existing units under Type 1 (3-year) contracts until 2032. Under *all* the 2024 Draft ISP scenarios, between 2/3 and all coal will have closed by the 2032 date, as shown in the figure below.

Figure 15 Coal capacity, NEM (GW, 2009-10 to 2049-50)



Source: AEMO ISP 2024 Draft

Under the proposed framework, AEMO *could* therefore rely entirely on existing capacity until 2032. This would mean relying on Type 1 contracts for longer than is prudent, leading to either i) extending the life of coal units and increasing grid emissions and the costs to consumers under the Capacity Investment Scheme or, worse, ii) coal units become uneconomic or simply fail (as has been repeatedly seen historically) and we face a shortfall in essential services and very high prices.

Point (ii) is I distinct from the direct impact on emissions from contracting existing resources. Instead, the broader decarbonisation target will mean that the existing resources are simply not available – leading to shortfalls and extreme pricing. This is not hypotethetical; this was observed in South Australia where no services were procured ahead of the unexpected (but not unanticipated) closure of the final coal unit.

Need for clear AEMO resourcing gudelines

Even if AEMO intends to "trial" alternative providers, there is no requirement for AEMO to do so or to *not* also contract Type 1 contracts. This risks higher costs being passed through to consumers. Given AEMO's many competing priorities and other projets of interest, there is also the risk that these transitional plans get "kicked down the road".

We note that clear standards or requirements for grid forming batteries are still not available, and standards for fast frequency response from batteries were only developed following a successful rule change by Iberdrola Australia. We further note that AEMO has still not identified what combinations of new units could

replace the gas peaker unit combinations in South Australia, leading to continued interventions (and costs) in that region. These are not intended as criticisms of AEMO; rather, they highlight the complexity of the decisions and the need for rules based obligations to develop solutions *before* they shortfalls lead to high prices for consumers.

Given the apparenty complexity of this transtion, it is likely that there will be near-term costs in terms of AEMO resources that must be traded off against long-term savings. AEMO will need clear Rules based obligations and AEMC support to ensure this can be delivered.

Need for Type 1 contracts long-term
It is also possible htat, even beyond 2029, some short-duration contracts may be helpful to the system, to manage unexpected shortfalls or as-yet-unidentified system needs. However, on its own, this option would further dampen necessary investments.

2. A rules based obligation for procuring new resources is required

These shortcomings can be readily addressed by two straight forward changes:

- The sunset period for the use of 3-year Type 1 contracts should be reduced to December 2028; no 3-year contracts could extend beyond that date.
- A rules based obligation will require AEMO to progressively transition from Type 1 to Type 2 contracts (or other procurement mechanisms for new resources) consistent with the transition trajectory in (at least) the ISP "most likely" scenario and advice from the Reliability Panel.

A simply proxy for this trajectory would be the average MW-weighted emissions intensity of resources[2] vs the average emissions intensity of the NEM in AEMO's build. AEMO would "book build" contracts over time to ensure that this trajectory is maintained (or beaten). Alternatively, a coal-specific trajectory could be applied where the percentage of coal capacity by year in the ISP becomes a limit on the percentage of coal capacity that can be procured.

We note by aligning the planning to AEMO "most likely" ISP scenario, these obgliations should not be onerous – rather they would simply reinforce the prudent actions of an operator consistent with AEMO's own planning document. Provided AEMO does not intend to rely on existing resources beyond credible closure dates, this framework should in fact *help* AEMO in planning resources and budgets to deliver the transition.

[2] Synchronous condensors and energy storage systems would be rated as 0 emissions, consistent with their long-term operation.

Additionally, we would suggest that:

- The mix of Type 1 and Type 2 contracts should be approved by the Reliability Panel. This would help balance near-term and long-term costs and reliability.
- Additional 1-year Type 1 contracts could continue to be signed if deemed appropriate by the Reliability Panel.

Finally, none of these steps should preclude or avoid the need for AEMC and AEMO to continue to unbundle services and create a transparent and fungible market where possible. For example, we support proposals for further independent technical advice on inertia – particularly looking to Eirgrid and their approaches.

3. Conclusion

We look forward to continuing to engage with the AEMC. Please do not hesitate to contact me if you have any questions on joel.gilmore@iberdrola.com.au or 0411267044.

Regards,

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