To: AEMC

Via website

Date: 21st November 2024

Subject: ERC0403 Allowing AEMO to accept cash as credit support – Iberdrola Submission

About Iberdrola Australia

Iberdrola Australia delivers reliable energy to customers through a portfolio of wind and solar capacity across the NEM. 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 energy storage. 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.

Our submission

Thank you for the opportunity to provide feedback on this rule change request[1]. We broadly support the proposed rule. Providing the option of using cash for credit support increases flexibility for market participants, and may allow for reduced operational and transactional costs going forward. As the Consultation Paper notes, cash is permissible in other similar situations, including in the WEM.

Claw back risk

We agree that if the participant is declared insolvent, the identified claw back risk is material. This is particularly true for aging assets that are nearing their end of life and potentially susceptible to abrupt closures.

If the AEMC or AEMO intends to socialse the costs of any claw back across participants, it may be appropriate for cash participants to pay additional premium to compensate for this risk.

At a minimum, applying a "risk premium" would be an appropriate interim arrangement given the urgency of Delta's rule change; this would allow AEMO more time to consider alternative structures, such as registering a security interest or structuring credit support as a pre-payment (as proposed by AFMA).

Costs and treatment of interest

We consider that, to the extent that AEMO incurs any additional setup or transaction costs, these should be born by Delta and future participants who use cash for credit support. This could be through per transaction fees for anyone using these facilities.

[1] https://www.aemc.gov.au/rule-changes/allowing-aemo-accept-cash-credit-support

Interest received by AEMO for holding the cash should be returned to the participant, consistent with the approach for short-term margin calls.

Other factors

We agree with the AEMC's identification of facilitating greater emissions (noting that ESG considerations underpin Delta's need for the rule change) as a potential cost. However, given the short timeframe, we consider the affordability limb of the NEO should apply here.

However, this rule change again highlights the need to *plan* for rapid decarbonisation, driven by both technical and financial drivers, and ensure that coal closures are not delayed if economically and socially desired.

In particular, we note again that AEMO's Transitional Services Plan will be a critical document, where AEMO is required to outline how critical system services will be procured over the coming decade if and when coal units close. It will be critical for the AEMC and the Reliability Panel to verify that this document provides specific, actionable investment plans, including what Type 2 contracts for replacement resources will be procured over the next 12 months.

Conclusion

We look forward to continuing to work with AEMC and AEMO to deliver an efficient energy market. If you would like to discuss this submission, please contact me on joel.gilmore@iberdrola.com.au or 0411 267 044.

Yours sincerely

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