

27 October 2022

Ms Anna Collyer
Chair
Australian Energy Market Commission

Lodged via AEMC website

Dear Ms Collyer,

Project EPR0087: Transmission Planning and Investment - Stage 3 – Draft Report

Iberdrola welcomes the opportunity to provide a submission to the Transmission Planning and Investment – Stage 3 Draft Report.

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 in [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 roll-out these capabilities in country, demonstrating its full commitment to Australia's energy transition.

The outcomes and direction of the Stage 3 draft report are a significant shift from Stage 2 draft which is a welcome change in approach. The Australian Energy Market Commission (AEMC) recognises in the Stage 3 report that there is a need to examine several areas of the regulatory framework where the treatment of major projects can be simplified, improving delivery times and increasing certainty.

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>

Iberdrola support the need for, and intent of, long-term reform under the Transmission Planning and Investment Review (the Review). We strongly agree with the AEMC about the need for timely delivery of major transmission projects to facilitate the transition to net zero. However, we don't believe the recommendations and scope of the Review will achieve time savings or expedite the delivery and implementation of major transmission projects. We have concerns about the Review and the options proposed, they are detail in our submission. These include:

- **The proposed options may not achieve a material reduction in delivery time:** The options proposed in the Review are focused on the retaining the ISP as the driver of new investment. They do not recognise that several states and the Federal Government have plans and governance arrangements underway.
- **Integrated System Plan Actionable (ISP) projects are out of scope:** The Review does not address the immediacy of the major transmission projects that need to be delivered over the next decade, as identified under the AEMO 2022 ISP.
- **Current approach to building new transmission by regulated monopolies still applies:** The Review fails to recognise contestability frameworks for the build of new major transmission as is being adopted by NSW and Victoria.

Incremental reform proposed will not reduce the delivery timelines of transmission

The proposed three options for incremental reform of the Regulated Investment Test for Transmission (RIT-T) will not reduce the time taken by the regulated Transmission Network Service Providers (TNSP) to reach an investment decision and rapidly determine both the route and cost of new transmission., As such, it will not expedite the delivery of new transmission. The RIT-T was designed to deliver incremental improvements to an existing transmission network. It was not designed to underpin large single infrastructure greenfield projects. The three options proposed to adjust the RIT-T, offer a modest time saving of only 6-18 months on a total project length of 5-10 years.

Of the three proposed options to expedite the RIT-T, a hybrid of models 1 and 2 would support broader engagement on the route selection to build social licence. This, combined with a least cost economic assessment on that route, may expedite the yes/no decision on whether an investment should go ahead. But given options 1 and 2 only accelerate the start of the assessment process, significant time savings will not accrue.

NSW and Victoria have developed their own economic assessments for transmission (the Transmission Efficiency Test (TET) in NSW⁵ and the Victorian Network Investment Test (VNIT) in Victoria⁶).

⁵ <https://www.energy.nsw.gov.au/sites/default/files/2022-08/regulatory-framework-for-the-tet-and-regulator-determinations-for-network-infrastructure-projects-220224.pdf>

⁶ <https://engage.vic.gov.au/download/document/27045>

Additionally, the Federal Government, through the Rewiring the Nation, is transitioning away from assessing the benefits of new transmission using the RIT-T and has developed assessment criteria more closely aligned to unregulated industries that regularly delivery significant national and state infrastructure projects.

Governments have already moved away from the RIT-T for assessing the benefits of new transmission and the AEMC is out of step with the approaches being taken at the state and federal level. The AEMC should not continue to seek incremental change to the RIT-T but explore, coordinate, and develop the options being used by governments to underpin investment decisions and rely on the assessments of national corporations, such as the Clean Energy finance Corporation or the Rewiring the Nation Corporation.

Further, the recent decision and ongoing work of the energy ministers to include an emissions objective in the National Electricity Objective (NEO) renders the need to specifically address emissions in the RIT-T redundant, the revised NEO will make this a requirement for any activity in the NEM.

Integrated System Plan Actionable (ISP) projects are out of scope

The Review does not address the immediacy of the major transmission projects required. The ISP is an important and valued document for signalling the need for investment in new transmission and generation. It is a guide to efficient investment in transmission that will maximise benefits to consumers across the entire National Electricity Market (NEM). However, it was never designed to be a centralised implementation and delivery plan for critical investments. Each ISP has a development and delivery cycle of two years, and the ISP has regularly been ‘leapfrogged’ by the states who have responded more quickly to the rapid changes in their regional energy systems and the need to achieve emission commitments and targets. The ISP has also historically underestimated the pace of change expected by governments (and required to meet international emissions reduction commitments), particularly in the near-term.

The process to make the ISP ‘actionable’ and subsequent amendments to Chapter 5 of the National Electricity Rules, did not adequately address the interaction and differences between the economic assessment in the ISP and the RIT-T. The Review only seeks to address the timely delivery of the RIT-T and does not address the time taken to deliver each biennial ISP resulting in only limited time savings.

Given the established appetite of the state governments to coordinate transmission investment and the willingness of the Federal Government to support investment in new transmission through Rewiring the Nation, the implementation of any ISP-signalled investment in transmission should be via governments and their relevant delivery bodies (EnergyCo in NSW, VicGrid in Victoria). The Rewiring the Nation Corporation could undertake a cost-benefit analysis of ISP projects based on the approach typically used for large infrastructure projects. For example, the assessment used by the Clean Energy Finance Corporation to support their investment in energy infrastructure.

The current approach to building new transmission by regulated monopolies still applies – the AEMC Review is not aligned with state and federal energy plans

The current approach to building new transmission by regulated monopolies still applies. The AEMC Review, including Stages 2 and 3 and the separate work on contestability, fails to recognise the government-initiated coordination of generation and transmission planning in the states. These focus on contestable delivery of new transmission and new approaches to assessing the benefits of transmission projects.

By not expediting the development of a contestability framework and the economic assessment process so that it applies to the current ISP projects, the AEMC is delaying Australian electricity customers to access more cost-effective solutions^{7, 8}, while also compromising Australia meeting its emissions commitments.

While the AEMC indicated that contestability is a long-term reform, it should be noted that NSW introduced a contestability framework in 18 months and it is now delivering benefits to customers. The AEMC's view that we need to wait until the 2025 ISP Review to make decisions that will expedite the delivery of new transmission will have negative impacts on customers.

The entirety of the Stage 3 paper is only considering the case of regulated monopoly Transmission Network Service Providers (TNSP) to build future ISP projects. This is not an ideal outcome for customers, particularly in the near-term since, as the AEMC identifies⁹, it is taking many years (a decade for Project Energy Connect by the time it is fully operational in 2025) for any actionable ISP project to progress through the ISP and RIT-T process and to be delivered.

Contestability

The AEMC Stage 3 paper implies that, even in 5 years, there will be no contestability in place for the future ISP projects. Additionally, the AEMC contestability paper does not contemplate contestability in the near term or for the current \$15 billion of investment needed in the actionable ISP projects. Competitive tendering for the entire delivery of new transmission lines, not just the construction, produces better outcomes for customers. It drives lower prices for transmission projects, reduces end electricity costs for consumers, helps drive timely delivery, produces better value contracts, and promotes innovation approaches to all aspects of new transmission design, build and delivery¹⁰.

⁷ https://nexaadvisory.com.au/site/wp-content/uploads/2022/06/Report-Modelling-Electricity-bill-impact-due-to-transmission-delay_2022-06-07.pdf

⁸ <https://ieefa.org/media/3227/download?attachment>

⁹ https://www.aemc.gov.au/sites/default/files/2022-09/transmission_planning_and_investment_review_-_stage_3_draft_report.pdf, page 32

¹⁰ <https://engage.vic.gov.au/download/document/27045>, page 40

We strongly encourage the AEMC to refocus the TPIR to work with governments to develop NEM-wide consistent frameworks for economic assessment and contestability based on the approaches being used by the states. Utilising the work of the states will deliver a fit-for-purpose framework quickly, which will facilitate the rapid build of new transmission through Rewiring the Nation and state delivery bodies, as part of wider REZ plans that successfully coordinate both new generation and transmission.

Finally, concessional financing is likely to be provided by governments, including through Rewiring the Nation, and is unlikely to be problematic for unregulated contestable providers of new transmission. The AEMC needs to pivot the Review to reflect the likely delivery mechanisms for Rewiring the Nation to ensure that it remains in step with the realities of the NEM today.

Thank you for the opportunity to comment and we look forward to continuing to work with the AEMC to refine the design of any economic assessment test and to expedite the delivery of transmission. If you would like to discuss any of the issues raised in this submission, please contact Ricardo Da Silva 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 fluid and cursive.