

To: AEMO Draft 2024 ISP Consultation

Date: 16th February 2024

Subject: Draft 2024 Integrated System Plan

Iberdrola Australia delivers reliable energy to customers through a portfolio of wind and solar capacity across New South Wales, South Australia, Victoria, and Western Australia. 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.

Overview of our submission

Iberdrola welcomes the opportunity to make a submission on the Draft 2024 ISP. The Draft results highlight that significant action in both transmission and generation is required over the next decade to deliver the energy transition. This will require close collaboration between government, regulators, industry, and consumers to ensure that major projects can be delivered on time. To further the value of the ISP as a roadmap for the energy transition, AEMO should identify any areas where there is a misalignment between policy targets and existing policy mechanisms. This will help all governments to develop effective policy that minimises risk.

We look forward to working closely with AEMO to accelerate projects that can deliver Australia's climate goals. This will likely require projects beyond the currently proposed REZs and will require that there is willingness to engage with and support innovative projects and adapt to challenges in the pathway of the energy transition.

We broadly support the updates to scenario definition in the Draft 2024 ISP

It is critical that all scenarios for the ISP align with Australia's commitments under the Paris Agreement to limit global temperature rises to 1.5 degrees above pre-industrial levels. In particular, we note that the previous 2022 ISP's adoption of the Step Change scenario as the 'most likely' scenario (as recommended by Iberdrola Australia) marks the first ISP which was not out of date within 12 months (as explicit policies caught up to climate commitments). Similarly, subsequent to finalisation of scenario assumptions for the 2024 ISP, the federal government announced their commitment to delivering 82% renewables through the Capacity Investment Scheme – consistent with the ISP assumptions.

We therefore support AEMO in selecting scenarios that deliver a successful transition.

To ensure the effectiveness of the ISP as a roadmap, AEMO should clearly identify and highlight policy gaps in the transition

There is broad and deep agreement from all levels of government on the need to decarbonise the electricity system, which is reflected in the selection of scenarios in the Draft ISP. However, there can sometimes be misalignment between a policy target, and a credible well developed policy mechanism to achieve the target. The ISP is a valuable roadmap that illustrates a pathway to the energy transition. It demonstrates the need for investments in transmission capacity to support the optimal pathway, and highlights that government targets would be either missed or that additional system costs would be incurred if transmission capacity is not developed.

To further its value as a roadmap for the energy transition, it would be helpful for the ISP to clearly identify and articulate any policy ‘gaps’, where the successful achievement of existing policies does not align with the pace of transition required. For instance, where the achievement of any emissions reduction target or renewable energy target in AEMO’s modelling requires the implementation of a hard emissions constraint or other constraint that doesn’t reflect an existing legislated mechanism. If achieving government targets requires market intervention beyond existing government policies, this should be clearly articulated as part of the ISP.

This would help guide the development of policies such as the expanded Capacity Investment Scheme and provide valuable guidance for where jurisdictions could effectively focus additional support to deliver the transition. This is particularly important over the current planning window, for projects under development to enter by 2030.

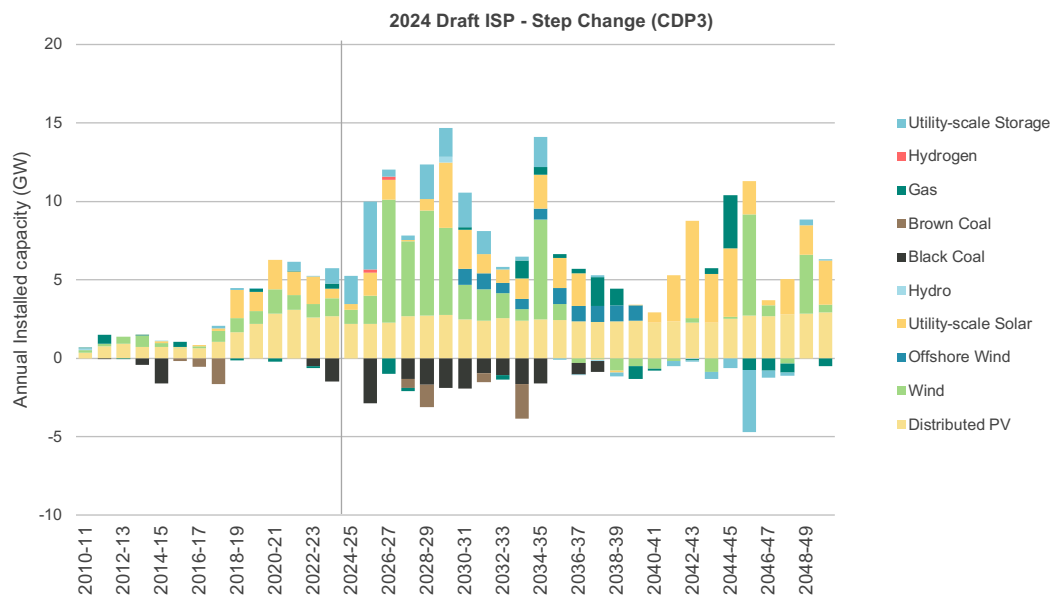
We note that the ISP is a least-cost simulation rather than a price or investment forecast. As such, the ISP results should not be used to infer shortfalls in the energy market design. For example, the lack of committed long-duration storage projects in the market compared to the ISP modelling reflects a lack of certainty around the timing of coal closures *not* a failure of the energy only market (which has consistently delivered high levels of reliability and investment). Instead, gaps between ISP projections and currently announced investment commitments highlight the importance of implementing broad based emissions constraints in Australia, which could be further explored by AEMO.

Achieving the energy transition requires close collaboration between government, industry, and consumers

By considering scenarios that deliver a successful transition, the ISP provides a “roadmap” for the energy transition – that is, identifying the pace of change required and identifying major transmission infrastructure projects required on a forward-looking basis.

While the required investment is a step up from historical levels, given Iberdrola’s understanding and experience in global supply chains, we consider Australia’s 82% renewable energy target is achievable by 2030 if projects are actioned quickly and AEMO and jurisdictions pursue all available opportunities.

Figure 1 – Annual NEM installed capacity and retirement – historic and 2024 Draft ISP CDP3



It is therefore critical that governments, industry, and consumers work together to deliver the transition. We look forward to supporting the transition through identifying and developing major new generation and transmission projects, and helping unlock major resources. We encourage AEMO and jurisdictions to continue to engage with industry on which projects are most likely to be able to be delivered quickly and with community support.

Section 8 of the Draft ISP highlights some risks to the timely energy transition as part of the optimal development path. These include the delays to investment relating to policy and market uncertainty, and supply chain risks including workforce availability. To ensure the resiliency of the pathway, it is crucial that governments are adaptive and positioned to support electricity transmission, generation, and storage projects that contribute to the energy transition. This will likely include innovative projects that sit outside of current REZ boundaries.

A true Integrated System Plan needs to identify system security services and requirements

Further work is required on identifying what system services are required, in what locations and in what timeframes. For example, AEMO needs to identify where (and when) grid forming batteries or synchronous condensers will be required to support the dispatch in the ISP. This analysis should then feed into subsequent publications like the ES00.

Further analysis of green fuels and electrification

We consider that a focus area for future ISPs should be higher resolution modelling of electrification and green fuels (including hydrogen, ammonia, and methanol). This includes explicit modelling of green fuel storage, consideration of green fuel offtake requirements, and consideration of different pathways to electrification (including thermal energy

storage). This could in turn affect the required generation mix and impact on electricity peak demand.

We look forward to continuing to work with AEMO on the ISP. 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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