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Mr John Pierce AO
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged via AEMC website

Dear Mr Pierce,

**Coordination of Generation and Transmission Investment (COGATI) Proposed Access Model – Discussion Paper**

UPC\AC Renewables (UPC) welcomes the opportunity to provide input into the ongoing COGATI and Renewable Energy Zone (REZ) regulatory model development being pursued by AEMC. UPC is a renewable energy developer, owner, operator with nearly 30 years of experience internationally. In Australia, we are progressing a number of large scale developments including New England Solar Farm and battery project in NSW, Robbins Island and Jims Plain wind farm in Tasmania and the Baroota pumped hydro project in South Australia. Our Australian business is a joint venture with AC Energy, a major Philippines based energy utility and investor in renewable energy assets across Asia.

UPC considers that the AEMC's proposed reforms appear to have the potential to reduce investment risk and ultimately increase development of generation and transmission assets and provide lower prices compared to the current regime. The key areas covered by the reforms are:

- Instruments to allow long term hedging of MLF and congestion risk;
- Greater transparency of congestion and MLF risks through five minute dynamic pricing;
- Access rights for participant-funded REZ network expansion;
- Positive price signals for large scale generation and storage in congested networks; and
- Stronger pricing signals for transmission investment and TNSP incentive schemes.

Our view, however, is that proposal is not mature enough and needs further work before it can be endorsed. The analysis of the benefits and costs needs to consider wider aspects of how the NEM works and how generation and transmission investments are made. The complexity of the changes could create additional complexity in terms of price forecasting, financial modelling, electricity contracting and financing of new projects such that there is a risk that this could create greater uncertainty and lead to additional costs to new projects. The outcome of this is that either new generation will be delayed until prices are higher or new generation will be built at a higher cost of capital, resulting in higher prices for customers over the long-term.

There are a number of matters we would specifically like to address:

**Financial Transmission Rights (FTR) -** would need to be over a longer period, say 10 years, to be a factor in supporting financing investment in generation projects.

**Grandfathering** - UPC does not support grandfathering of FTRs because of the potential distortionary effect on the market and the advantage that the incumbent generators would have over new entrants, given the current open access framework in the NEM. All existing and intending generators should be able to participate in the auctions from day one, provided that a basic threshold for eligibility is met.

**Renewable Energy Zones (REZs)** - The 50% of capital cost suggested by the AEMC is too high and would completely stifle commitment and prevent all but the largest utilities from participating. A more traditional "bid bond" approach may be more effective, whereby an arbitrary but sufficiently large bond is sought from proponents which is refunded if they are unsuccessful. UPC suggests a commitment profile that is aligned with the development stages of REZ infrastructure (generation and transmission projects) would be more appropriate. This would acknowledge that planning approvals, grid studies, easement procurement and community consultation are all required many years in advance prior to the need for a full deposit to fund building the transmission infrastructure.

UPC considers that the proposed "hedge" mechanism has merit and should be developed further. We are concerned, however, that the "devil is in the detail" and as is the case with all schemes including auctions, the more complicated the design, the less certain the outcomes and the fewer participants that will be willing to commit funds. UPC would prefer to see an initial trial with a limited scope conducted using simple rules to test the market, and then improve the design where needed, rather than trying to control for every possible outcome, risk and eventuality through overly complex rules.

One way of improving the proposed model, would be to strengthen the link between the EOI/auction process and the RIT-T process. UPC suggests that with appropriate commitments, the successful generators should be included as committed projects in the subsequent RIT-T, rather than using the limited definition currently used for "committed projects" as applied by AEMO. This would help ensure that the RIT-T adequately captures the level of interest in the market for the assets.

**Other COGATI Reforms**

In the December 2018 paper, AEMC outlined the need to review the existing inter-regional transmission charging arrangements to better align the costs of interconnectors with those that benefit from the investment. Initially the AEMC indicated that this reform would be implemented alongside dynamic regional pricing. That does not seem to be the case in the AEMC's latest paper, even despite the Integrated System Plan (ISP) highlighting a number of interconnectors that are designed to better share resources across multiple jurisdictions (i.e. EnergyConnect, Marinus Link, Kerang Link, QNI upgrades etc). UPC encourages the AEMC to progress work on this reform to better support the delivery of the ISP and generation and transmission investment signals.

We look forward to working with the AEMC in progressing reforms that will assist in supporting the future coordination of generation and transmission for the benefit of the electricity consumer.

Yours sincerely

Michael Connarty

Manager Strategy and Stakeholder engagement