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

Lodged via the AEMC portal online – www.aemc.gov.au

Dear Mr Pierce,

Re: Coordination of Generation and Transmission Investment ("CoGaTI") - Proposed Access Model and Renewable Energy Zones Discussion Papers

Foresight Group ("Foresight") appreciates the opportunity to comment on the CoGaTI Proposed Access Model Discussion Paper and Renewable Energy Zones ("REZ") Discussion Paper (together, "Discussion Papers").

Foresight is as a leading global infrastructure and renewable energy investment manager with $7.1bn assets under management. We currently manage European and Asian institutional and retail investors into Australian renewable energy assets of over 250MW. Globally, we have 200 energy infrastructure projects with over 2GW of capacity under management including Solar, Onshore Wind, Bioenergy, Battery Storage, Gas Peakers, and Smart Meters.

Foresight would like to thank the AEMC for inviting stakeholder input on this important proposal and understands the intent of the AEMC's Locational Marginal Pricing ("LMP") and Financial Transmission Right ("FTR") proposals. However, Foresight has significant concerns about the direction of this proposal and does not agree that it addresses the key issue of co-ordination of generation and transmission investment.

Foresight is a member of the Clean Energy Investment Group ("CEIG") and we would firstly like to reiterate that we agree with all the points raised by John Laing and the CEIG in their submission. Further to the submission provided by John Laing and the CEIG, Foresight considers the following topics are key additional considerations for the CoGaTI initiative.

1. **Increasing Cost of Capital for Future Investment**

As investors into projects it is important to have accurate and reliable forecasts for parameters such as loss factors and power prices on the basis of 25 to 30 year asset life in order to make informed investment decisions and develop sufficient confidence to deploy capital.

Whilst Foresight is ready and willing to facilitate necessary investment capital, we are increasingly dissuaded from doing so due to uncertainty in forecasting these parameters in Australia compared to other jurisdictions. Investors in the Australian energy sector have been recently significantly impacted by market forecasting inaccuracies in particular for power prices and marginal loss factors. The proposed changes to LMP and FTR will increase the difficulty of market forecasts due to the lack of historical pricing and increased complexity and volatility of prices and loss factors. Consequently, the risk associated with the investment will increase and this will decrease lender appetite, increase the cost of debt and required return for projects which will drive the cost of building new projects up. This will in turn increase wholesale energy prices for consumers and reduce investment and jobs in the sector as less projects are feasible to build.

Foresight has already seen a reduction in capital looking to invest in Australia due to this uncertainty as evidenced by the significant reduction of projects reaching financial close this year. The proposed changes are at great risk of reducing investment appetite and increasing the cost of new investment at a time when Australia has great need for new generation to replace its scheduled coal retirements.

Further, the lack of firmness in the FTRs and the short tenor at three to four years does not come close to covering the payback period of new generation and it is not clear how the FTR will support new investment into generation. Project developers in particular will be impacted by the proposed changes, and we anticipate a smaller pipeline of development assets due to the increased uncertainty of value. Further, PPA negotiations have also been put on hold while there is regulatory uncertainty and this in turn is currently delaying new investment.

Foresight maintains that any significant changes such as LMP or FTRs should be fully integrated with the NEM Post 2025 review to minimise the noise and disruption for the sector; that managing risks for new generation will drive better consumer outcomes; that the transitioning timetable should be realistic and achievable and that suitable grandfathering is adopted to maintain investor confidence in Australia.

2. **Increasing Indirect Costs**

Due to the significant complexity of the proposed arrangement, Foresight is concerned about the additional costs which generators will need to incur to hire trading specialists to manage the increased complexity of the market and the trading of FTRs. This additional cost (due to its relatively fixed cost basis) will disproportionately disadvantage small players compared to the larger generators or gentailers. This will ultimately reduce competition from new entrants and smaller players and push up Australian power prices.

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Foresight has faced a number of challenges trying to explain the changes to investors and the added complexity of introducing the proposed LMP and FTR changes and associated risk of forecasting incorrectly is becoming a major issue for unlocking more capital to invest in the sector.

3. Sovereign Risk & Grandfathering

The proposed changes have caused significant uncertainty in the market and without any quantitative cost / benefit analysis performed to date it is unclear at this stage how this will affect the value of incumbent generators.

Foresight is concerned about the grandfathering process and how long FTRs will be granted for incumbent generators noting the projects were financed for a 25 to 30 year design life. It is therefore necessary that existing generators are either granted transmission rights for the asset life of existing projects or be compensated for the reduction in asset value as part of the transitional arrangements in recognition of the expected asset life.

As our projects have been financed on the basis of 25 to 30 year design life considering parameters such as market power prices and MLFs and to the extent these values change due to the introduction of LMP and FTRs, this will impact the value of our assets. Power Purchase Agreements ("PPAs") have been contracted for our assets which typically have terms greater than 10 years which may also be subject to change in law based on the proposed LMP and FTR changes which could have significant cost implications for our existing assets. The debt facility agreements may also need to be updated and equity investors will require new market analysis. This will all come at a considerable cost to the generators. We are concerned that potential investors will view the market with a perception of regulatory risk that increases the cost of capital for Australian energy projects or that places Australia behind other OECD countries from the perspective of stability of the investment environment.

4. Summary

Foresight urges the AEMC to diligently consider the critical recommendations outlined by John Laing and the CEIG in their submission:

1. Implement the Average Loss Factors rule change as a near term measure to support new investment.
2. Action the Integrated System Plan.
3. Refrain from piecemeal structural market changes until the NEM 2025 review has been complete.

Furthermore, Foresight recommends the AEMC conduct detailed quantitative analysis to confirm the cost/benefit analysis of the proposed changes against alternative options including the following:

1. How this will impact the value of existing assets
2. How key investment parameters will be forecast

3. How existing generators will be granted transmission rights and/or compensated with consideration of the asset life.

We request that AEMC advise stakeholders in their assessment of the recommended approaches raised by John Laing and the CEIG including the detailed quantitative cost / benefit analysis prior to progressing any further with the proposed changes.

In summary, Foresight is deeply concerned about the proposed CoGaTI changes and trusts that the comments provided in this response are of assistance to the AEMC in its deliberations.

Should you wish to discuss any aspects of this submission, please do not hesitate to contact us on, 02 8046 3905.

Yours sincerely,

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