

11 November 2019

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

Subject: Goldwind Response to COGATI Discussion Paper

Dear Mr Pierce,

Goldwind Australia Pty Ltd (Goldwind) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) discussion paper on the Coordination of Generation and Transmission Investment (COGATI) proposed access model.

Goldwind notes that the COGATI process has had several objectives since its inception. Goldwind believe that transmission investment should be urgently coordinated with generation investment as the National Electricity Market is at the beginning of a significant transition to a zero-carbon future. We understand that transmission investment processes are being considered in development and actioning of the Integrated System Plan (ISP) as well as other initiatives to reform the RIT-T process. Further, transmission investment for new Renewable Energy Zones is being considered in a separate process. And there are multiple initiatives underway both at a State and Federal Govt level to stimulate transmission investment. As such, COGATI no longer appears to be focused on coordinating generation and transmission investment.

We therefore surmise that the remaining objective of COGATI is, put simply, to develop a mechanism to allocate finite transmission capacity. Goldwind supports this objective but cautions that the complexity of the model will need to be fully designed before market benefit is understood and a decision to proceed is made. The timing of this objective should be matched with implementation considerations such as update timeframes for NEMDE, existing short-term energy contract tenures, etc.

The AEMC has proposed a model and committed to perform quantitative assessment of market benefit. The model outlines Local Pricing combined with Financial Transmission Rights (FTRs) from the generator's local node to the regional node. We note that the AEMC is proposing a "straw-man" model to invoke discussion and Goldwind's feedback is provided in this collaborative framework.

Several key design features and design objectives need to be considered for COGATI to deliver market benefit. Goldwind considers that some aspects of the proposed model are likely to lead to a market disbenefit. We offer the following summarised input to the design considerations of the COGATI model.

Firmness design objectives

- The discussion paper suggests that FTRs could be non-firm;
- FTRs will be higher value and more critical in constrained transmission networks;
- If FTRs were designed to be non-firm, this would negate the efficacy of the most valuable and critical FTRs;
- Goldwind recommend that an FTR design objective should be to create firm FTRs, perhaps with an optional market product of a non-firm FTR if that is desired by the market.

Tenure design objectives

- The discussion paper suggests FTRs would have a 3-month tenure with auctions 3-4 years in advance;
- Generation and Transmission investment is governed by asset design lives greater than 20 years;
- The tenure of FTRs should match generation asset life;
- Generation developers should be able to purchase FTRs for the design life of a proposed asset prior to financial close;

Grandfathering

- Goldwind acknowledges that grandfathering is perhaps the most controversial aspect of COGATI;
- Furthermore, Goldwind is concerned that grandfathering may entrench carbon-intensive incumbency into the market;
- Goldwind's existing assets have contracts in place, including PPAs, that will require re-negotiation as a result of a new wholesale pricing mechanism;
- Goldwind's support for any COGATI outcome is dependent on a well-considered transition and grandfathering mechanism that considers risks to existing generators and incumbency advantages;
- Grandfathering of FTRs should include semi-scheduled and scheduled generators;
- The tenure of grandfathered FTRs should be based on the remaining asset life or connection agreement duration of the generator – this has already been well documented for several operating generators;

Marginal Loss Factors (MLFs)

- Goldwind notes that the current MLF system is both complex and unpredictable. Goldwind is not concerned about the complexity of the MLF system, however the lack of predictability makes investment business cases uncertain;
- Furthermore, Loss Factors are substantially uncertain when scarce transmission capacity is over-subscribed by new generation;
- Goldwind believes that Average Loss Factors will not result in a positive market benefit as this will encourage more remote generation;
- Goldwind welcomes a move toward Dynamic Loss Factors settled in NEMDE as this removes a layer of abstraction in current calculations;
- AEMO Loss Factor models should be transparent to allow all market participants and expert consultants to predict Loss Factor outcomes.

FTR Pricing & Quantity

- The auction value of FTRs and the settlement residues should contribute to making FTRs firm;
- Goldwind notes the proposed model for auction revenues in the Clean Energy Council submission as one design option to consider amongst other options;
- Networks Service Providers (NSPs) and AEMO will determine the number of FTRs available under the proposed model. This process should be transparent, predictable and open to consultation with market participants;
- FTR Quantity should aim to maximise market benefit, and measures will be needed to balance a conservative view of transmission capacity with development ambitions of new generators.

Relationship with Transmission Investment

- The third pillar of COGATI was that FTRs would inform transmission investment - this objective has been discontinued;
- Goldwind believe that NSPs may optionally wish to offer FTRs to generation developers that would be linked to building new transmission investment. Goldwind supports this outcome as a design objective.

We appreciate the opportunity to contribute to the COGATI consultation. Goldwind notes that varied opinions about COGATI exist amongst market participants and we look further to engaging in productive dialogue as the detail of a model is worked through.

Sincerely,



Steven Nethery
General Manager – Wholesale Markets & Technical Services
Goldwind Australia Pty Ltd