

Article Information

Authors: Martin Lovell, Grace Black, Kathryn Walker

Service: Projects & Construction

Sector: Electricity & Gas Regulation, Energy & Resources

Stakeholder submissions raise concerns over Coordination of Generation and Transmission Investment (COGATI) reform model

Submissions from generators, retailers and investors have raised serious concerns over the AEMC's proposal to overhaul wholesale pricing and transmission access.

On 31 October 2019 we wrote an [article](#) about the release of the AEMC discussion paper outlining the proposed Coordination of Generation and Transmission Investment (COGATI) reform model which aims to ensure that new generation and storage are connecting to the power system in the right place and at the right time to meet future needs. In response to the paper, a number of submissions were made by generators, retailers, distributors and industry bodies. Some of the common themes of the submissions centred around:

- Implementation timeframes and lack of detailed modelling;
- Unnecessary complexity and focus on dynamic regional pricing and financial transmission rights (**FTRs**); and
- Negative impacts on investment and existing contractual arrangements.

Not surprisingly, there was a divergence in views between large scale and smaller scale providers, with the latter being more supportive of the proposed reforms.

Implementation Timeframes

Generators, retailers and stakeholders have all raised concerns around implementation timeframes and a lack of modelling, suggesting the proposal was being rushed and likely to have unintended consequences. In particular, the CEC and AEMO suggest that there has been a lack of robust modelling to demonstrate net benefits. The preferred position of the CEC and AEMO was to better align the timing of the proposed changes with the Energy Security Board's (**ESB**) Post-2025 Market Design to enable the integration between the two to be fully understood. There were also concerns around proposed grandfathering arrangements.

Unnecessary Complexity and the Impact on Investment

A common theme in the submissions was the overly complex nature of the proposed reforms which focus on introducing dynamic regional pricing and FTR's rather than increasing transmission capacity. The concern from some is that the complexity of the model may not produce a net benefit to generators who will need to operate in a more complex environment, requiring new modelling and trading skills. The costs of such changes need to be carefully considered to avoid a detrimental impact on investment and to maintain reliability and contracting liquidity to hedge risk and reduce volatility.

Retailers raised concerns over what they suggest are significant conceptual changes, including the introduction of volume weighted average pricing, local pricing and FTRs which have uncertain costs and returns creating uncertainty which could lead to a lack of confidence and stifle investment.

Impact on Contractual Arrangements

Large scale providers and retailers have raised concerns around the impact on contractual arrangements from the introduction of dynamic locational pricing which could increase financial risk to market participants creating unnecessary uncertainty and higher risk premiums being added to price offers.

In addition, retailers are concerned that FTRs will not fully hedge against the risk introduced through dynamic regional pricing.

We will provide further updates as new information is released. In the meantime, if you would like to know more about the proposed changes and how they may impact your project or its financing, please contact one of our team.

Key Takeaways

- Submissions from generators, retailers and investors are critical of the AEMC's proposal to overhaul wholesale pricing and transmission access.
- Questions have been raised over timeframes, complexity and impact on investment.
- AEMC will provide its final report to the COAG Energy Council in December 2019.