20 October 2020

Ben Davis
Director
Australian Energy Market Commission

Lodged electronically

Dear Mr Davis,

Submission to COGATI interim report

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the AEMC's interim report.

The problem COGATI must address

The current regulatory framework was designed to deliver efficiency of incremental investment to a centralised generation and transmission system which has already been largely 'built out'. In contrast, what is needed now is a planning and investment framework that delivers efficiency for strategic, whole-of-system investments to ensure the transformation to low-cost and zero-emissions sector is delivered in a timely and cost-effective manner. This is discussed more broadly in PIAC's submission to the Post 2025 consultation paper.

Locational Marginal Pricing

PIAC is generally satisfied that the introduction of Locational Marginal Pricing (LMP) is likely to improve locational signals for connecting generators and may create an incentive to generate at times to avoid local network congestion. We support non-scheduled loads and generators continuing to face a regional price rather than the LMP. We support the principle that the LMP reflect dynamic marginal losses – we have noted in earlier submissions to the AEMC[1] the issues that the current static intra-regional losses have on locational investment signals and proposed alternative models to address this.

PIAC notes the AEMC considers further analysis is necessary to determine whether any mitigation will be required for inefficiently high LMPs. We support this examination including the balance between allowing necessary signals for new investment and preventing opportunities to systemically drive inefficiently high wholesale prices for consumers.

Financial Transmission Rights

The case for Financial Transmission Rights (FTRs), however, is less clear. Given they are a financial instrument, it is not apparent how the proposed FTRs relate to network investment decisions. Without a change to how network investment costs are recovered, it is also not

1 Such as AEMC, *Submission to COGATI Access and Charging consultation paper*, April 2019 and PIAC, *Submission to Transmission Loss Factors rule change*, July 2019.

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apparent how network investments driven by the sale of or pay-out from FTRs is necessarily in the long-term interests of consumers as opposed to the financial interests of particular FTR holders or the TNSP.

This is in contrast to other models, such as PIAC's risk- and cost-sharing model for Renewable Energy Zones (REZ) that provides a workable model for generators to help fund new network investment as well as upgrades to the existing network in order to address congestions and optimise generator dispatch. This model is discussed in further detail in PIAC's submission to the Post 2025 consultation paper as well as in an earlier COGATI discussion paper.[2]

PIAC considers that FTRs would only be in the interests of consumers to the extent that they, in conjunction with the introduction of LMP, help plan and deliver more effective generation and transmission investments.

Therefore it is essential that any design decisions regarding FTRs be an outworking of this ultimate goal and not limited to creating a functioning financial market in isolation. This must inform design decisions such as the conditions of FTR sale, their duration, whether they are "continuous" or have "time of use" rights, and the types pricing outcomes they can cover.

PIAC reiterates our support for any shortfall in proceeds required to back FTRs being accounted for by scaling back FTR pay-outs and not by reducing the TUOS charge offset.

Continued engagement

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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2 AEMC, *COGATI Renewable Energy Zones discussion paper*, October 2019, 46-51.