



Monday, 25 March 2024

Mr Simon Duggan

Deputy Secretary,

Department Climate Change Energy Efficiency and Water

Dear Mr Duggan,

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia, representing over 1,000 of the leading businesses operating in renewable energy, energy storage, and renewable hydrogen. The CEC is committed to accelerating the decarbonisation of Australia's energy system as rapidly as possible while maintaining a secure and reliable supply of electricity for customers.

We welcome the opportunity to comment on the Design paper for the expanded Capacity Investment Scheme (CIS).

The CEC supports the work of the Commonwealth Government and the Department of Climate Change Energy Efficiency and Water (DCCEEW) in developing the Capacity Investment Scheme. The CIS will be central to delivering the large volume of renewable generation and storage needed to decarbonise Australian electricity systems.

Like any major policy reform, implementation of the CIS must be carefully managed, to ensure it delivers the original policy intent of the scheme. This submission sets out some of the questions and suggestions from CEC members regarding CIS implementation.

The CEC is eager to work with DCCEEW as well as State and Commonwealth Governments to ensure this important reform is delivered quickly and effectively.

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## High level questions

Below we step through some of the high level questions we have regarding the fundamental design of the CIS. We acknowledge some of these issues may fall outside the remit of DCCEEW and must instead be addressed by the Commonwealth Government and State Energy Ministers, through policy changes at the macro level.

These high level questions, and some recommendations, are set out below

## **To what extent are CIS Agreements (CISAs) considered meaningful de-risking instruments by debt lenders?**

Our initial engagement with debt providers indicates that floor prices are a key focus.

From engagement with some lenders, we understand that floor prices closer to levelized cost of electricity (LCOE) may be preferred in order to make a project bankable.

However, this largely depends on lender risk appetites and assessments of a project's likely revenues under expected market conditions - see commentary on wholesale energy prices below).

We understand that other contracting mechanisms, such as derivatives and PPAs, also factor prominently in investment decisions from debt providers. Any design choices that have the potential to reduce incentives for parties to participate in contracting markets – as discussed by reference to Eligible Contract definitions below – should therefore be avoided.

We encourage DCCEEW to undertake further engagement with debt providers, to understand their concerns regarding the extent to which CISAs can support debt financing of projects.

## **What are the consequential impacts of the CIS on wholesale energy markets and existing assets?**

CEC members have raised concerns regarding the intersection of the effects of the CIS in increasing new supply, with the timing of retirement of coal generation. This intersection will influence wholesale price levels, impacting both new capacity offered through the CIS, as well as existing renewable and energy storage investments that do not have a CISA.

The CIS targets significant volumes of new supply to be brought online by 2030. A key benefit of this new renewable capacity will be to increase supply side competition, driving towards a sustainable long run wholesale market price.

However, any artificial delay in the exit of coal generation will in turn drive an artificial oversupply and associated distortions in wholesale prices. This creates a classic missing money problem. This will be particularly problematic in the years preceding and immediately following 2030, when the renewable energy target (RET) concludes.

This could drive various consequences.

Firstly, CIS tender offers are likely to account for these expected wholesale price outcomes, with bids for floors and caps shaped accordingly. If expectations are for suppressed wholesale prices, parties may be more likely to require floor bids closer to expected LCOE.

Artificial oversupply may also challenge the financial viability of existing assets. The flow on effects of this could be material, including the potential for supply side concentration if stranded assets are sold.

We strongly recommend DCCEEW and the Commonwealth Government consider the full suite of available solutions to manage this effect. These solutions can be delivered through and in conjunction with the CIS.

Firstly, we strongly urge States and the Commonwealth Government to work together to carefully manage the exit of thermal coal generation, to ensure that coal exit is carefully coordinated with entry of new renewable generation capacity. Clearly and publicly articulated dates for coal closure, communicated well in advance, are essential to provide the market with certainty that an efficient supply / demand balance will be maintained. Mechanisms such as the Orderly Exit Mechanism framework could form the basis of how this certainty is delivered.

Clear and controlled exit of coal generation could be coupled with mechanisms to bring forward investment in new renewable capacity, which could be held out of market until such time as coal generation can safely and reliably exit. This reserve capacity mechanism, which has been previously proposed by CEC member Iberdrola, would support ongoing reliability while maintaining stability of wholesale prices. We consider that such a reserve capacity mechanism could be integrated with Generation CISA tender rounds.

Finally, certainty should be provided in terms of expected volumes of capacity that will be procured in successive tender rounds. Investors in new capacity must have confidence regarding volumes that will be procured over time – the pathways set out in the NSW Infrastructure Investment Opportunities report (which inform volumes procured by AEMO Services in that state) provides one example of how this certainty could be provided. The procuring party should also be required to procure a minimum volume of capacity in any given tender round, to minimise uncertainty.

### **What are the interactions with state schemes, particularly the design of the NSW Energy Roadmap?**

The CEC understands from information made available on the CIS consultation page that the volumes of capacity procured under the CIS will be in addition to any volumes procured under the various state based mechanisms.

This is a welcome clarification, however the CEC seeks further clarification regarding the specifics of how this additional capacity will be procured – for example, will the existing LTESA framework form the main procurement process in NSW?

Beyond this, we also seek further clarity regarding the Renewable Energy Transformation Agreements (RETAs), and how they will influence procurement of CISAs across the states, particularly interactions with planning and thermal coal retirement decisions.

As identified above, the CEC recommends specific timelines and capacity targets be set for each region. This would allow Developers to prioritise development activities to support the timing of transition in each region.

### **How to support entry of other forms of renewable technology, such as long duration energy storage and offshore wind, into the power system?**

The CEC has consistently argued for the importance of a portfolio approach being applied to energy storage. That is, the most efficient power system design will utilise a mix of different storage technologies and durations, to deliver the lowest overall cost energy supply for consumers.

This will include lithium ion battery technologies in key roles such as short duration energy shifting, frequency control and system stability.

However, lithium ion batteries should be complemented with various forms of long duration energy storage (LDES). LDES includes pumped hydro energy storage (PHES) and the various forms of emerging LDES, such as compressed air, redox flow and thermal energy storage.

We are also supportive of the system benefits that can potentially be provided by offshore wind.

LDES has significant potential to increase the reliability of the power system, particularly post 2030 when most of the large thermal generation assets are predicted to retire. It also complements and supports renewables, accelerating power system decarbonization. Offshore wind also shares some of these characteristics.

However, LDES are typically capital intensive, long lead time assets with unique risk profiles. Many emerging forms of LDES are also higher up learning curves and are not readily understood

by Australian energy investors and developers. Offshore wind is also a relatively new technology in Australia, potentially with a higher LCOE than onshore.

We have previously argued for the Dispatchable CIS to be partitioned, with a defined volume reserved to support LDES. We have also called for the timeframes of the CIS tenders and the expected CODs for delivery, to be adjusted to account for the longer lead times of LDES. This partitioning could also be applied to offshore wind.

While partitioning and changes to timeframes remain the CEC preferred policy positions, we acknowledge the Design paper appears to rule out both. More generally, the current design of the CIS is focussed on renewable technologies of wind, solar and lithium battery storage.

The CEC therefore encourages the Commonwealth Government to give full consideration to other mechanisms to drive investment in LDES, to complement the CIS.

It appears that current wholesale market signals cannot deliver these signals, and the timeframes associated with changing these market settings are too slow to drive LDES investment today. While the CEC continues to advocate for these market mechanisms to be evolved, it seems unlikely that the key market parameter that will support additional LDES investment – the cumulative price threshold – can be adjusted in a meaningful way within the next 10 years.

We therefore recommend State and Commonwealth Governments give further consideration to development of more immediate, targeted solutions to support LDES. This could include expansions to existing out of market schemes, such as the RERT, noting the importance of minimising impact on wholesale market impacts from such mechanisms.

More generally, other forms of out of market mechanisms could be designed to provide a ‘top up’, that is a targeted revenue stream that complements market revenue streams such as those flowing from wholesale market revenue and network support arrangements – as such, they need not cover the entire cost of the asset.

Similarly, it may be worthwhile considering the development of government support contracts specifically targeted towards support for energy reserves provided by LDES. As discussed in further detail below, such mechanisms are also likely to be more effective than operational triggers like LOR3 notices, at procuring defined volumes of energy reserve.

The CEC recognises that other policy reform areas will form the appropriate avenue for these considerations, particularly the post 2030 review process. However, we encourage State and Commonwealth Governments, as well as DCCEE, to begin consideration of these concepts as soon as possible, as the urgency of the issue is only going to increase.

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## Detailed responses

### **Would your organisation benefit more from a 6-monthly cycle of simultaneous tenders for both generation and clean dispatchable products, or would an alternating 12-monthly cycle (consisting of one tender every six months, alternating between generation and clean dispatchable products) for each be more desirable?**

Most CEC members have expressed general support for a rolling 6 monthly auction process, as long as tenders submitted in one round can be automatically rolled into the next. We understand that similar models have been adopted in the NSW LTESA procurement process, allowing tendering parties to learn by doing and adapt their proposals iteratively.

On the other hand, some other members have suggested this process may give rise to confusion, with parties being unclear how their overlapping tenders will be considered.

The CEC acknowledges that overlapping 6 monthly cycles create the potential for some confusion for tendering parties. However, we are comfortable this can be managed if tender processes allow for the easy roll forward of tenders from one round into the next, subject to some adjustments made to benefit from learnings. This may mean that tenders are active in multiple rounds simultaneously.

The procurer will need to develop systems that enable such an outcome. In doing so, it will be important to limit the administrative burden on both sides by making re-submission as easy as possible and only requiring updates or changes where they are relevant.

### ***General comments on auction procurement and other potential procurement models***

Some CEC members have questioned the general design of the auction procurement model, particularly the risk that the process will result in a race to the bottom on price, with a less effective consideration of other criteria that could negatively impact project viability.

The CEC acknowledges that regulatory measures, such as the eligibility and merit criteria defined in the paper, can be used to manage this risk, especially if some form of project bonding is applied. Moreover, we acknowledge that auction processes, if run effectively, can be very effective in price discovery and delivering value for the buyer.

However, we recommend that DCCEEW consider whether auction mechanisms might be completed with other forms of procurement, to ensure all potential projects are identified.

An example of an alternative procurement mechanism could include determination by the Government (or a regulator) of a single ex-ante 'standard offer' CISA, with a predefined collar price and a limited set of standardised conditions – such as satisfying state planning requirements or specific technical obligations. Any project that had reached a reasonably progressed point in development – such as financial close - would be held to automatically qualify for a standard offer CISA. These projects could then opt into the CISA contract if they wished.

The CEC considers this standardised, 'opt in' model might allow for the market to select for the most viable projects. Such a process will allow for the investment market to identify those quality projects that offer significant value to customers. These projects effectively prove their own viability by firstly satisfying market investors, providing the government with comfort regarding project quality.

Such a model might be run in conjunction with the auction process, perhaps commencing once two or three standard auction process rounds had been completed. This would allow the values of the 'standard offer' to be based on actual prices discovered through previous auction rounds.

The CEC acknowledges there are a number of elements of this model that require further work. For example, determination of the fixed collar price would likely require extensive modelling, at least until such time as regular auctions had resulted in some price discovery. Its also likely that different standard offers would need to be defined for different technology types – a standard offer for solar, for example, would likely be inappropriate for wind.

By offering a second route to market, we consider this approach could increase the range of options available to meet the CIS targets.

The CEC welcomes further engagement from DCCEEW to explore potential models such as this as it designs subsequent tender rounds.

**Risks to contract market liquidity and whether design elements outlined in this section are sufficient to preserve incentives to participate in the contracts market.**

***Tender volumes:***

We note the proposed volume of Generation CISAs in the first two tenders is 10GW – nearly half the 23GW total capacity that will be procured across the scheme.

The CEC considers there are potential benefits with procuring large volumes upfront, as this will help to unlock the many renewable projects that we understand are currently delayed until the CIS design is finalised.

However, there is also a risk these large initial tenders will not necessarily drive *additional* investment, but rather will flow to projects that were likely to progress anyway. While this is not necessarily a bad thing – it may help to accelerate staging of existing projects for example, and bring forward additional capacity in time – the Commonwealth Government and DCCEEW should weigh this against the stated scheme objective of securing new investment.

***Managing risks to contract market liquidity:***

The CEC strongly supports the principle followed by DEECCW to minimise impacts on contract markets and retain incentives for parties to participate in said markets.

The CEC acknowledges the changes that DCCEEW has made to the design of the contracts, especially the move towards allowing different contract designs. Increasing flexibility for parties to innovate in contract structure is key to maintaining incentives to participate in markets.

CEC members have differing views regarding the specific design of the contract structure. Many members, for example, do not consider the collar style contract to be the best way to maintain these incentives. In particular, the effects of the revenue sharing value will limit potential upside, which may in turn flow through to higher floor prices. It may also reduce incentives for parties to respond to wholesale market price signals, by reducing the extent to which an asset can access high price periods.

We encourage DCCEEW to consider the interaction between potential floor prices and contract market liquidity. To the extent that these floors represent an alternative to foundational contracts being struck – such as foundational PPA offtakes - this may affect PPA market liquidity. However, we recognise that some of the models around option contracts and volumetric exclusions may represent a pathway to alleviate these issues – this is discussed further below.

### ***Contract Tenor***

Several CEC members have identified that the 15 year tenor of the CISAs is too short, given that most renewable assets have an expected lifespan of at least 20 years, with wind generation being upwards of 30 years and pumped hydro in the range of 80-100 years.

These contract tenors are also relevant to the issues raised above in relation to the impact of wholesale price suppression on existing assets. This issue will also impact assets that are awarded a CIS contract, when the said contract term expires after 15 years. Wind and solar has no fuel cost and the asset capex will be sunk in 2045. We understand this issue is considered a risk for achieving equity returns and is likely to lead to higher bid revenue floors

We encourage DCCEEW to reconsider the consequential effect of these short contract tenors.

Equally, consideration could also be given to some form of option for extension at the end of the contract life.

### ***Actual LOR3 notice operational requirements***

The CEC has material concerns regarding the inclusion of actual LOR3 notices as a performance requirement.

As we have described in earlier letters to the Department, there are multiple issues associated with the inclusion of this trigger.

Some of these issues flow from the relative unpredictability of LOR3 declarations. For example, in the 13 February 2024 Victorian power system event an LOR3 notice was suddenly issued at 14:20, following an AEMO instruction to shed load.<sup>1</sup> There is no way CIS contracted parties could forecast such an LOR3 event.

We recognise that in the draft term sheets of the Vic SA Dispatchable CIS tender, it appears this situation may have been accounted for in section 11(b). However, note that this carve out was subject to 'reasonable endeavors', which are notoriously unclear in a legal sense. We also note the draft term sheets included a 2 hour notice between Forecast LOR notice and LOR3 event, which may have partly ameliorated some of the concerns raised here. It appears, however this 2 hours notice has been removed.

Even in those situations where an LOR3 notice is preceded by LOR2 notices in pre-dispatch, storage proponents will struggle to manage uncertainty. LOR2 notices are issued relatively frequently and are more often than not recalled well before dispatch – this is their purpose, as they signal to the market for more capacity, which allows them to be recalled once that capacity is made available in pre-dispatch.

AEMO holds the responsibility and deriving the methodology and running the calculations of the forecast uncertainty measure (FUM), which is a key input to when forecast LOR notices are issued. It is known to be a highly conservative metric to account for a range of potential outcomes in the ST PASA timeframe, driving LOR notices to be issued and then frequently recalled. Only

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<sup>1</sup> [preliminary-report--loss-of-moorabool---sydenham-500-kv-lines-on-13-feb-2024.pdf \(aemo.com.au\)](#). See page 9.



AEMO, as the independent system and market operator, have full optimised visibility of system, market and RERT positions in real time.

Chief concerns regarding the implications of the LOR3 clause within the CISA design include:

- **Unintended outcomes from energy conservation behaviour.** Operators will likely reserve energy in response to this contractual requirement; notably in a way that may in fact exacerbate, rather than relieve, forecast LOR1 and LOR2 conditions by charging to meet their 50% contracted capacity dispatch obligation.
- **Impacts to asset revenues:** As the clause is de-linked from 'forecast' LOR notices, Operators would be forced to form a unilateral view of the likelihood of an 'actual' LOR3 event materialising and ultimately take a conservative position by reserving energy. As Operators cannot manage or have direct oversight of the FUM calculations informing reserve level declarations, they are required to make a decision in operational-timeframes with an incomplete view of the market. If they are incorrect or are not dispatched in the market (as say the conditions alleviate), they have foregone valuable merchant revenues that underpin many BESS return profiles.
- **Conflicts with the LOR framework and activations of RERT contracts.** AEMO has the ability to both direct generators or activate the RERT mechanism and contracts once a forecast LOR2 is declared. RERT contracts reflect out-of-market reserves that are priced significantly higher than in-market dispatchable capacity, resulting in an erroneous outcome in efficient generation supply curve by dispatching higher priced generation ahead of lower priced (within the MPC) CISA contracted capacity.

Both of these concerns have flow on system-level impacts for control room decision making (increasing the number of directions and manual interventions); and for system reliability by withholding economic supply from the market ahead of economic supply that could in fact relieve forecast conditions if allowed to bid in response to market price signals.

Fundamentally, this restriction will flow through to risk pricing by debt financiers given the asymmetry in risk allocation, increasing the cost and risk of project finance.

In addition to the above, the CEC considers that the penalties associated with breach of any operational performance requirement should be capped to a given amount of the total payments made available to the Project Operator in a given period. We consider that capping the extent of penalty payment reduction would be a sensible approach and help manage downside risk for lenders. An uncapped liability will markedly increase project risk premiums.

We also recommend the Commonwealth and DCCEEW reconsider this LOR3 trigger, on the basis that the stated objective of the CISA contracts is to **incentivise investment in capacity**, not **ensure availability of energy reserves**.

If the Commonwealth government is seeking to develop a zero-carbon **energy reserve** mechanism, then such a mechanism should be defined accordingly, with the explicit intention of providing said reserves, which would be remunerated accordingly.

If energy reserves are the desired outcome, then the CIS is unlikely to deliver it at the lowest cost to consumers.

We also recommend that DCCEEW take a broader view of what is meant by maintaining reliability. The CIS will generally support increased volumes of dispatchable capacity, which will tend towards increasing aggregate levels of reliability.

We also encourage DCCEEW to expand its thinking in terms of the changing shape of reliability at risk periods. As identified by the AEMC, reliability at risk periods are likely to shift away from



short, sharp periods of peak demand, to longer, deeper periods of seasonal shortfall.<sup>2</sup> While LOR2 / LOR3 notices may represent the more traditional periods of reliability risk very effectively, this is likely to change as the system evolves to higher levels of renewable penetration and seasonal shortfalls become the main driver of reliability at risk periods.

The CEC supports the desire of the Commonwealth Government and DCCEEW to improve reliability of the power system. As discussed below, we think this can be partly actioned through well defined reliability merit criteria provided on an ex-ante basis.

More generally, and as noted in regards to the need to support investment in long duration storage, we also encourage the Commonwealth to consider what out of market mechanisms might be adopted to incentivise the investment required to deliver sustained reserve energy supply, on the basis of addressing the changing reliability at risk profile.

**Would the proposed Eligible Wholesale Contract requirements present a significant barrier to your organisation participating in the wholesale contracts market with a generation project with a CISA?**

**Would the proposed negative price provisions present a significant barrier to any renewable capacity business model considered by your organisation? Could these provisions have any negative impact on project NEM bidding behaviour?**

The negative price provisions appear to be overly inflexible and not reflective of the reality of current contracting processes in the NEM. The extent of negative pricing and associated economic curtailment appears to be flowing through into PPA and other contract designs, so we would expect that any unilateral carveout is unlikely to be consistent with current industry practice.

CEC members have advised that ASX traded contracts tend to include negative price events. This creates a mismatch between the conventions in the CIS contract and the ASX contract - in periods of negative prices the deemed revenue \$ per MWh will be higher under the CIS than what is determined under the settlement of the ASX contract. This impacts the effectiveness of the hedge. This could have the unintended consequence of reducing the supply of ASX contracts sold by proponents with CIS contracts or will cause them to bid higher floor prices to add a margin to cover this risk.

We have also been advised that requiring projects to wear MLF and volume risk may create issues for financiers that remain unresolved through the CISA contract. For example issues may arise regarding risk allocation regarding MLF and curtailment. As the Commonwealth Government controls the process to award contracts, it is possible that a Proponent is awarded a CISA in round 1, but in round 2 the Government awards a CISA to project in the same region that impacts projects 1's MLF and curtailment.

The CEC acknowledges the Government's desire to limit taxpayer exposure to the consequences of negative pricing. On this basis we recommend that negative pricing be allowed, but with a cap defined to limit Govt liability should this occur.

In regards to issues with MLF impacts, some form of risk sharing could be explored, or at least some consideration to existing generators MLF impacts should be considered in subsequent tender rounds.

We also note the 1 year timeframe for eligible contracts. We understand this does not align with the majority of derivative contract structures, both OTC and ASX traded, which are typically set

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<sup>2</sup> [Review of the form of the reliability standard and APC - REL0086 - Directions Paper \(aemc.gov.au\)](#). See page ii

for 3 months or less. Exclusion of these kinds of contracts could reduce liquidity in these important markets.

**Would the proposed Special Purpose Vehicle requirement present a major barrier to your organisation's business model for renewable capacity and clean dispatchable capacity projects?**

The CEC understands that SPVs represent a reasonably common approach to asset development. Most members have not raised significant issues here.

However, we note that one CEC member raised concerns regarding ownership requirements proposed under the CIS, especially in relation to the requirements where the owner must be the operator for the CIS project as well as Registered NEM participant.

It is argued that such requirements may reduce the incentives of signing certain wholesale contracts and may present a barrier to participating in the CIS. It is not uncommon for owners of renewable projects to sign agreements with another entity (the project operator) to hand over the trading rights for these projects in exchange for fixed regular payments. In this case, such an agreement is entered into because the project operator (not the owner) is better equipped to manage the risks associated with trading in the NEM and financial markets. Requiring the owner of a CIS project to also be the operator and registered NEM participant would make such a business model untenable.

The CEC understands these kinds of tolling arrangements are reasonably common and can provide very efficient risk allocation. The CEC therefore strongly recommends DCCEEW explore this issue and ensure these arrangements are not inadvertently precluded by the CIS design.

On a separate note, the CEC also notes that in the initial design, inflation risk sits with the project operator. This is likely to drive inefficient outcomes, as current inflationary pressures and uncertainty regarding future direction of inflation may require tendering parties to increase their bids.

The CEC considers a direct pass through of inflation is a more efficient outcome, given this can be linked to transparent measures such as CPI.

**We welcome feedback on the alternative options to preserve incentives to participate in wholesale contracts markets, including:**

- **Whether an option structure would be of value for the generation CISA**
- **Views on the inclusion of Eligible Wholesale Contract revenue into the net revenue calculation vis-à-vis the volumetric exclusion of Eligible Wholesale Contract revenue**
- **Views on the potential requirement for the Project Operator to physically deliver any Green Products to the Australian Government**

The CEC is generally supportive of the intent to allow for alternative CISA contract structures to be developed. The Design paper therefore represents a good step forward.

We would argue however, that there are a wide range of contracting structures that are likely to be applicable to the many potential participants in the CISA rounds. As such, we recommend that DCCEEW allow itself greater flexibility to explore other types of contracting solutions, in addition to the nominated option and volumetric exclusion model.

This is likely to lead to greater value for consumers, by harnessing innovation in contracting design.

In regards to the two models proposed:

- **Option contracts:** Engagement with some debt providers suggests the viability of the Option structure contracts will be affected by the time between call and operationalisation of the contract. For example, a six month period between call and operationalisation means the contract will not be capable of covering unexpected developments in market conditions. On that basis, we understand some debt providers are likely to require project operators to call the option immediately on commencement of operation, and keep it permanently active.

As identified above, some CEC members have raised questions regarding the interaction between the CISA floor price and ongoing liquidity of PPA and other contract markets. It may be that the CISA option model could alleviate some of these concerns, as a CISA option would not necessarily 'compete' with, or form a direct substitute for, a PPA / offtake - at least until such time as it was actually called.

It follows that DCCEEW should carefully consider the incentives created by the time period between option call and operationalisation, as discussed above, given the impact this will have on whether options are called or not.

- **Volumetric exclusions:** CEC Members have identified that typically, derivative contracts are not written on the basis of volumes. Beyond this, it is likely to be difficult to determine exactly what volumes of the generation sent out are excluded, and which are not. Further detail on how this model would be defined is needed.

However, as per comment on option structures above, any mechanism that allows for separation of PPA contracting from CISA underwriting may support contract market liquidity. The CEC is therefore supportive of further work in this area, to explore what these volumetric exclusion CISAs might look like in practice.

A related issue we have heard from debt providers is that some elements of the CIS design may increase complexity of financing. For example, under the quarterly payment / annual true up design, we understand that specific instruments will need to be designed to manage cash flow risk. This will add to the complexity and cost of finance for projects.

## **Eligibility and merit criteria**

### ***Form of eligibility and merit criteria***

Under the auction design, eligibility and merit criteria will be a key determinant of which projects are selected to proceed. Given this importance, it's critical that as much ex-ante guidance be provided as possible, to allow tendering parties to design their proposals accordingly.

We provide further detail on this matter in the section on hybrids below. In general, we recommend that ex-ante merit criteria be defined, preferably with a quantitative element, particularly around those merit criteria related to system security and reliability benefits.

We also note the current exclusion of sub-30MW projects, VPPs and projects fuelled by bio-waste. While the CEC considers this is appropriate to expedite the initial rounds of the expanded CIS, we recommend DCCEEW reassess these eligibility criteria as soon as practicable. In particular, we recommend that the potential for VPPs and smaller projects to support general system security and reliability should be considered.

This should also include consideration of new capital works to expand and maintain landfill gas projects, which may have some potential to support system reliability, while reducing methane emissions.

### ***Other criteria***

The CEC interprets Stage A (project bid assessment) as a set of thresholds that must be met to be eligible for a CISA, and Stage B (financial value bid) as the range of considerations that, once eligible, can be put forward by proponents as part of the financial bid and which will be taken into account in decision-making to award a CISA.

The Stage A requirements around project technical and commercial viability and proponent capability appear generally reasonable.

Including threshold requirements relating to supply chain, community and First Nations is also sound in principle, but there needs to be clarity and certainty about the level of, for example, “demonstrated efforts” that are expected or the extent of “evidence of having considered” specific issues. In terms of local supply chain, the requirements should refer to “where such capabilities and available and commercially viable”.

Some CEC members have noted that if the same Stage A criteria are applied as the Vic/SA Tender process, then proponents may be forced to lock in key parameters such as exact project sizing (MW size plus duration for firming projects) at this early stage. There is often uncertainty around project sizing until quite late in the development process, for all technologies. It may therefore be easier to manage this risk if the sizing submitted for Stage A (or even Stage B) allows for a margin around the project sizing estimate.

In terms of adhering to any future state/territory community engagement guidelines, we note that there may be a gap of several years between when community engagement commenced on a project and when that same project might be put forward for a CISA. It will be important to assess projects against the expectations/guidelines that were in place at the time the community engagement was taking place. Projects should not be required to retrospectively adhere to new guidelines.

A developer rating scheme, as recommended in the Community Engagement Review by the Australian Energy Infrastructure Commissioner may not be necessary if those developers are effectively already being required to adhere to a set of standards in order to be eligible for a CISA. A clear, transparent and agreed-on set of community engagement expectations for a CISA would help raise the standard of community engagement across the industry.

The Stage B merit assessment explicitly identifies social licence commitments as a feature that can form part of financial bids, presumably with the intention of incentivising projects to deliver improved benefit-sharing frameworks. The scope of this could conceivably be expanded, to include incentivising projects to deliver a range of further benefits (eg. Improved environmental outcomes), noting that improved outcomes typically come at a cost that may otherwise make projects unviable. Being able to include these costs in financial bids for a CISA would help achieve better outcomes.

Creating this incentive to achieve enhanced social outcomes would come at a cost to consumers, and we appreciate that government will be seeking to minimise this impost. It will be important for proponents to have a clear line of sight on how different criteria will be weighted (ie. To understand the extent to which increased costs to deliver enhanced social/environmental outcomes will be balanced against cost effectiveness to government).

### ***Intersection with REZ development***

The CEC notes that many projects tendering for CISAs are likely to be located in the various renewable energy zones being developed around the NEM. Many of these REZ projects are dependent on the timely completion of major transmission works, the delivery of which may be affected by a range of factors, including supply chain and workforce issues or local community / social license issues.

CISA design should consider the risk of any delays in project delivery associated with these REZ delivery delays, which obviously fall outside of the control of project operators. Special provisions should be included for in any term sheets to account for this delay risk.

**We welcome feedback on the approach to the inclusion of hybrid projects:**

- **Would the proposed approach enable the better participation of hybrid projects in CIS tenders?**
- **Would your organisation consider bidding for separate clean dispatchable capacity and generation CISA for the components of a hybrid? Would the proposed schedule that includes simultaneous clean dispatchable capacity and generation tenders (detailed in section 1.1.3) support this option?**

The CEC appreciates the approach taken to consideration of hybrids and, while we can't answer on behalf of specific businesses, we would point to the key role the system benefits merit criteria will play in participant decision making.

As the Design paper notes, the key advantage of a hybrid plant registered for a Generation CISA relates to its treatment under the system benefit merit criteria. It follows that those criteria must be sufficiently well defined, so as to enable hybrid proponents to make these decisions well in advance of hitting FID.

The market briefing for the SA / Vic tender for Dispatchable CISAs included some information on these criteria, and we acknowledge the Design paper states that additional information will be provided in subsequent specific tender guidelines.

However, given the importance of these reliability considerations, as well as the fact that winning tenders will be selected by a panel likely exercising some subjective judgement, its imperative that clear ex-ante guidance is provided as to how these criteria will be assessed. Ideally, this would be quantitative in nature, to provide tendering parties with increased certainty and to minimise the risk that panel decisions do not align with objectively optimal solutions.

Another issue for DCCEEW to consider is the specific situation where a storage asset, such as a battery, is retrofitted to an existing windfarm. In this situation, we consider the battery assets should be able to tender for a Dispatchable CISA, rather than being captured as part of the generation CISA.

As always, the CEC welcomes further engagement from the Commonwealth Government and DCCEEW. Further queries can be directed Christiaan Zuur at the CEC on [czuur@cleanenergycouncil.org.au](mailto:czuur@cleanenergycouncil.org.au)

Kind regards

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