



Monday, 6 May 2024

Mr Simon Duggan

Deputy Secretary

Department of Climate Change, Energy, the Environment and Water

Dear Mr Duggan,

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia, representing nearly 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 [WA Design Paper – Capacity Investment Scheme \(WA Design Paper\)](#).

Overview

The Clean Energy Council has already provided detailed comments in our [submission](#) dated 25 March 2024 on the [Implementation Design Paper](#) for the Expanded Capacity Investment Scheme. Unless stated otherwise, our comments in that submission can be held to apply across both the WEM and the NEM CIS schemes, with this submission focussing only on those issues directly and solely relevant to the WEM.

We consider there could be a risk of misalignment of the WA CIS scheme and Reserve Capacity Mechanism (RCM) process, through project delays or reductions / cancellation of capacity credits for a CISA project. To ensure alignment, we recommend consideration of processes such as the expedited assessment of CISA projects as critical projects and / or the early certification of reserve capacity being automatically granted (on a conditional basis) when the CISA contract is awarded.

Further detail is needed on how delays in the commercialisation of a project will be dealt with. Consideration should be given to permitting projects to operate in the WEM until they can participate in the RCM. Delayed projects should be permitted to commence operating in the RCM in the first capacity year following the date of their commercial operation (or such earlier date permitted by AEMO).

We recommend that eligibility criteria be reviewed to include projects with NCESS contracts and to ensure VPPs using DER resources are included in the second and third rounds of clean dispatchable tenders.

We recommend the adoption of additional policies at both State and Commonwealth levels to better incentivise investment in projects for new capacity and to promote emerging long duration energy storage such as compressed air, redox flow and thermal energy storage. Long duration energy storage is key to maintaining reliability as the power system transitions.

In relation to projects which do not qualify for a CISA, we request the DCCEEW give consideration as to how those projects will be impacted by the WA CIS and release any modelling on the proposed WA CIS's impact on capacity market and energy markets in the South West Interconnected System (SWIS).

Specific comments

Our comments on the WA Design Paper are outlined below.

Potential for misalignment of WA CIS scheme and RCM process

The CEC considers there could be a risk of misalignment of the WA CIS scheme and RCM process. This misalignment could have far reaching consequences, including potential early termination of the CISA (since CISA requires participation in the RCM mechanism).

There is a potential for misalignment to arise where:

- there is a delay in the project, either in the connection approval and registration processes or in the construction of the project. The project may not be able to obtain certification of reserve capacity capability and therefore participation in the RCM, by the target dates in the RCM process.
- the project is no longer eligible for Capacity Credits or if its Capacity Credits are cancelled or reduced.

We recommend DCCEEW consider approaches to manage this potential misalignment such as considering:

- the expedited assessment of CISA projects as critical projects
- the potential for early certification of reserve capacity being automatically granted - on a conditional basis - when the CISA contract is awarded. This also would reduce the administrative burden of complying with the RCM and CIS.
- the requirement for AEMO to award capacity credits on an ongoing basis after entry into a CISA except in defined circumstances.

Delays in commercialisation of projects

The WA Design Paper provides that all CIS underwriting contracts in the WEM will require projects to participate in the RCM process and be eligible to receive Capacity Credits in order to receive CIS payments: para 3.2 on page 11 of the WA Design Paper.

There is a lack of clarity about the consequences if a project is delayed (impacting the project's ability to meet target dates for obtaining certification of reserve capacity and participating in the RCM). We understand that delays beyond the control of the proponent will be dealt with in term sheets.

We encourage clarification as soon as possible on:

- what are force majeure events and confirmation that projects will not be terminated for failure to participate in RCM processes by target dates; and

- how projects will participate in RCM processes if delayed.

In relation to delayed projects, consideration should be given to permitting projects to operate in the WEM until they can participate in the RCM. In particular, we recommend that:

- if the commercial operation date of the project is after the capacity year, the project can operate outside the RCM (including providing ancillary services such as FCAS raise or contingency or LGCs).
- the project is permitted to commence operating in the RCM in the first capacity year following the date of commercial operation of the project (or such earlier date permitted by AEMO).

Fast tracking the assessment of new projects

Recent analysis identifies that the connection process for new projects in the SWIS can take up to five years¹. In relation to new projects, we therefore recommend that CISA projects be fast tracked for connection, for example, by being treated as a critical project. This is to facilitate their participation in the RCM and certification processes, and their commercial operation, within the target dates outlined on pages 13 and 14 of the WA Design Paper.

Reliance on information provided by Western Power

The WA Design Paper states that eligible projects include those that have made progress towards obtaining connection approval (including projects which have received a response to a connection enquiry): see para 3.5.3 on page 17.

We are seeking clarification as to how material changes to information provided by Western Power in response to a connection enquiry, which is relied upon by the proponent in preparing the tender, will be dealt with under the CISA.² If Western Power changes the information it has provided after the award of the tender, a proponent may need to make material changes to its project, which takes additional time. Consideration should therefore be given as to how this should be accounted in the CISA (for example, as a force majeure event).

Exclusion of projects with NCESS contracts

The eligibility criteria excludes projects with a Non-Co-optimised Essential System Services (NCESS) contract procured by AEMO, but the design paper does provide the reason for this exclusion.

We consider that projects with NCESS contracts should remain eligible for CISAs for the following reasons:

- The expanded CIS scheme permits multiple mechanisms for deriving revenue from, and funding for, facilities (including through bilateral agreements with AEMO and third parties)³.

¹ Oakley Greenwood, *Bottlenecks affecting generation development in WA*, 12 February 2024

² We note that clause 18.3 of the Applications and Queuing policy provides that “the enquiry response letter and discussions under this clause 18 are not binding on Western Power, and Western Power is not liable for any error or omission that is made as a reasonable and prudent person in the enquiry response letter and discussions under this clause 18”.

³ Operational Revenue under the draft South Australia-Victoria Tender CISA term sheet includes revenue attributed to the Facility/Project:

Projects are encouraged to pursue alternative revenue streams to ensure more competitive financial bids. It is unclear why revenue from an NCESS is treated any differently to revenues available from these other contract types.

- There is no equivalent exclusion of System Integrity Protection Schemes (including Network Support and Control Ancillary Services - the closest proxy to an NCESS in the NEM) in relation to the CIS framework which applies to NEM jurisdictions.
- NCESS contracts are only awarded for two years and AEMO is unlikely to procure such services after more firming capacity becomes available in the WEM. In contrast, the economic life of the batteries is at least twenty years. These battery recipients of NCESS contracts have the same risk exposure to long term revenue uncertainty as any other participant (which the CIS addresses).
- Tenders for clean dispatchable capacity are intended to bring an additional 1.1GW dispatchable capacity into the grid. This is likely to create an over-supply situation that will result in lower capacity and consequently in a sharp decrease in the Reserve Capacity Price, due to the high sensitivity of this price to the supply-demand balance. This situation was not anticipated by recipients of NCESS contracts in their investment decision. Access to CIS will allow to manage this risk by sharing part of the NCESS revenues in exchange of long-term revenue certainty.

Proponents should be incentivised through participating in the WA CIS tenders to build additional dispatchable capacity (which has already been approved). Such further stages should be eligible for WA CIS tenders.

WA CIS impact on other projects

We note that there are only 3 dispatchable and 2 generation tenders under the WA CIS. Given there is a stable pipeline of qualifying generation and storage projects already announced (outlined on pages 66 and 67 of the [2023 WEM Electricity Statement of Opportunities](#)) and the WA CIS requires projects to reach commercial operation within a relatively short timeframe (before the 2027 RCM capacity year), it is possible that WA CIS could result in bringing forward projects already announced, rather than incentivising the development of new projects.

While this bring forward is not without its benefits, we recommend the WA and Commonwealth Governments give consideration to these potential outcomes, with a view to maintaining incentives in investment in new capacity projects over the long term.

In relation to projects close to commercial operation in the SWIS, which do not qualify for a CISA, we recommend DCCEEW give consideration as to how those projects will be impacted by the WA CIS and release any modelling on the proposed WA CIS's impact on capacity market and energy markets in the SWIS.

Proposed changes to RCM and other WEM rules and processes

As noted at page 10 of the WA Design Paper, changes to the RCM are being contemplated by the Wholesale Electricity Market Investment Certainty Review working group of the Market Advisory Committee. Other changes are being implemented to the WEM rules and processes.

(a) from the sale of electricity, hedges, capacity products or green products;
(b) from the supply of ancillary services, network support services or system services;
(c) under an offtake contract;
(d) from AEMO (in its capacity as a regulator) in respect of the Project.

Industry needs certainty as to the RCM and certification processes in preparing their CIS tender proposals. The impact of changes to WEM rules and processes on projects needs to be taken into account and managed. In particular, where possible, there should be grandfathering of the rules in place at the time of the tender process, at the election of the project proponent.

Although there is a need for certainty as to the CIS process, we still recommend that the WA CIS scheme be reviewed after the initial tenders to seek feedback from industry as to whether the CIS scheme is performing as expected. This would allow amendments to be made if necessary to ensure the WAS CIS scheme is fit for purpose in subsequent tenders.

VPPs less than 30MW

We note the current exclusion of sub-30MW projects and, from this clean dispatchable tender, Virtual Power Plants (VPPs).

According to AEMO, in WA more than one in three households have rooftop solar installed, equivalent to almost two gigawatts of renewable energy generation. Collectively, this represents the largest source of electricity generation on the SWIS. AEMO's [2023 ESOO](#) forecasts the installed rooftop solar capacity to more than double in the coming 10 years. In 2022/23, '[Project Symphony](#)' pilot successfully 'orchestrated' consumer distributed energy resources (DERs) such as rooftop solar, batteries, and other major appliances, like air conditioning and pool pumps, as a Virtual Power Plant (VPP). The pilot demonstrated that customers will engage with 'VPP orchestration' where it includes clear customer benefits.

We recommend that the DCCEE work with AEMO, and other stakeholders involved in the Project Symphony pilot, to explore how VPPs might be included in the next clean dispatchable tender. We note that AEMC is currently conducting two reviews to provide better access to VPPs to participate in the wholesale market. The first is looking at device level metering to allow the separation of flexible from essential load. The second is examining how to integrate price responsive (VPP) assets into the wholesale and FCAS markets. Both these reviews will make it easier for VPPs to become more firm and actively participate.

Long Duration Energy Storage

As noted in the CEC submission on the Expanded CIS dated 25 March 2024, the effect of the CIS timelines means that many forms of LDES, such as pumped hydro energy storage and emerging technologies such as redox flow, thermal energy storage and compressed air, will in effect be ineligible for the CIS. However, these assets will be increasingly critical to the maintenance of reliability, stable wholesale energy prices and contract markets as thermal coal generation assets retire and renewable penetration increases.

To complement the CIS, we recommend the WA State government and the Commonwealth Government work together to give further consideration to development of more immediate, targeted solutions to support LDES projects in WA. We note that vanadium batteries are being developed using critical minerals, and with companies based, in WA, and that compressed air may have less ecological impact and require access to less water as a resource than pumped hydro.

As always, the CEC welcomes further engagement from the Commonwealth Government and DCCEEW. Further queries can be directed to Diane Staats at the CEC on dstaats@cleanenergycouncil.org.au.

Kind regards

Christiaan Zuur
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