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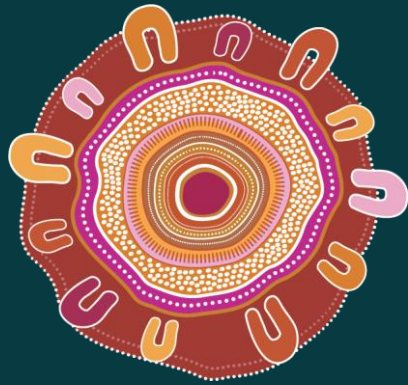
Department of Climate Change, Energy,
the Environment and Water

Capacity Investment Scheme

Peak Market Bodies

August 2023





We acknowledge the Traditional Owners of country throughout Australia and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past and present.



Disclaimer

The Commonwealth of Australia, as represented by the Department of Climate Change, Energy, the Environment and Water, has produced this publication to provide high-level and initial guidance on the proposed Capacity Investment Scheme (CIS). The CIS is presently under development and the information contained in this publication is subject to change. This publication does not indicate commitment by the Australian Government to a particular course of action in relation to the CIS or otherwise.

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Our presenters today



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Key issues for consultation

- Minimum duration and reliability
- Social license requirements
- Payment mechanism
- Operational requirements (97% availability requirement, LOR3 operational requirement)
- WA design considerations

Minimum duration and reliability

The first CIS tender in SA and VIC is expected to include an eligibility requirement for projects to dispatch at a minimum duration of output at full capacity to ensure contribution to the reliability standard

Benefits of lower minimum duration requirement

- Potentially better value for money for the Commonwealth given that lower duration capacity may be closer to commercial and therefore require lower revenue floors
- Greater peak availability for a given quantity of MWH
- Fewer incentive problems associated with less commercial projects relying mainly on Cwlth top-up payments rather than market incentives

Benefits of higher minimum duration requirement

- AEMO ISP Step Change scenario points to a least-cost capacity mix including medium duration capacity (4+ hours)
- Jurisdictions are concerned about tail risks associated with higher penetration renewable systems and want longer duration capacity
- Lack of perfect foresight may mean that in practice, shorter duration storage may not be available to discharge at times of greatest need
 - The assessment task may be simpler with a higher min duration requirement

Enabling social licence

Social licence is critical to the energy transition and is considered in the CIS policy design and implementation

Importance of social licence

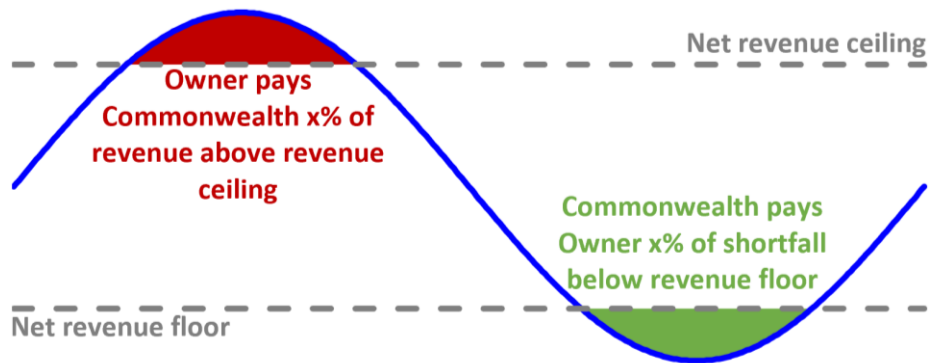
- Early investment in community engagement can **improve local acceptance**, approval and operation of projects
- Driving the best possible outcomes for local communities is key to ensuring **whole-of-system benefits**

Considerations in developing CIS approach

- **Enforceability** of commitments – legislation, contractual requirements, monitoring
- **Potential constitutional issues** associated with requirements that could be different across jurisdictions
- **Changing** community interests across a project's long life-cycle
- Overlaps and **complementarity** with existing State-based policies and law
- Some jurisdictions have expressed interest in a requirement for projects to be located within REZs - how would this affect project economics?

Payment mechanism

Projects under CIS contracts will have a revenue floor and ceiling



Payments to CIS counterparties will be calculated and paid on a quarterly basis, with an annual true up

Term Sheet for consultation to be published



Contract terms for feedback

- Revenue sharing below floor (%)
- Revenue sharing above ceiling (%)
- Contract term (years)
- Contracted capacity (%)

There may be an option for projects to submit 2x financial value bids per project (as in LTESA) – is this valued?

Operational requirements for CIS projects

- The intent is to have minimal operational requirements for CIS projects so as to preserve normal commercial incentives
- This includes participation in wholesale contract markets (however will need to be on an arm's length basis)
- The operational requirements we are considering:
 - 97% availability guarantee
 - LOR3 operational requirement

Benefits of operational requirements:

- Projects receiving Commonwealth support will be expected to ensure their contribution to reliability outcomes
- These operational requirements may counterbalance the downsides of contracting with lower duration capacity and may enable a more flexible approach to minimum duration requirements

Downsides of operational requirements:

- To the extent that these affect project economics, this may be reflected in bids



Q&A

Have Your Say

Have your say on the Capacity Investment Scheme Public Consultation Paper – by **31 August 2023**

Submit your feedback through the department's Consultation Hub at: <https://consult.dcceew.gov.au/capacity-investment-scheme-public-consultation-paper>

The Department of Climate Change, Energy, the Environment and Water looks forward to hearing from you and receiving your feedback on the scheme.

Contact us

CapacityInvestmentScheme@dcceew.gov.au

For more information visit

<https://www.energy.gov.au/government-priorities/energy-supply/capacity-investment-scheme>