



Australian Government

Department of Climate Change, Energy,  
the Environment and Water

# Capacity Investment Scheme

Design Paper  
Consultation Webinar

Presenters

**Matt Brine (DCCEEW)**

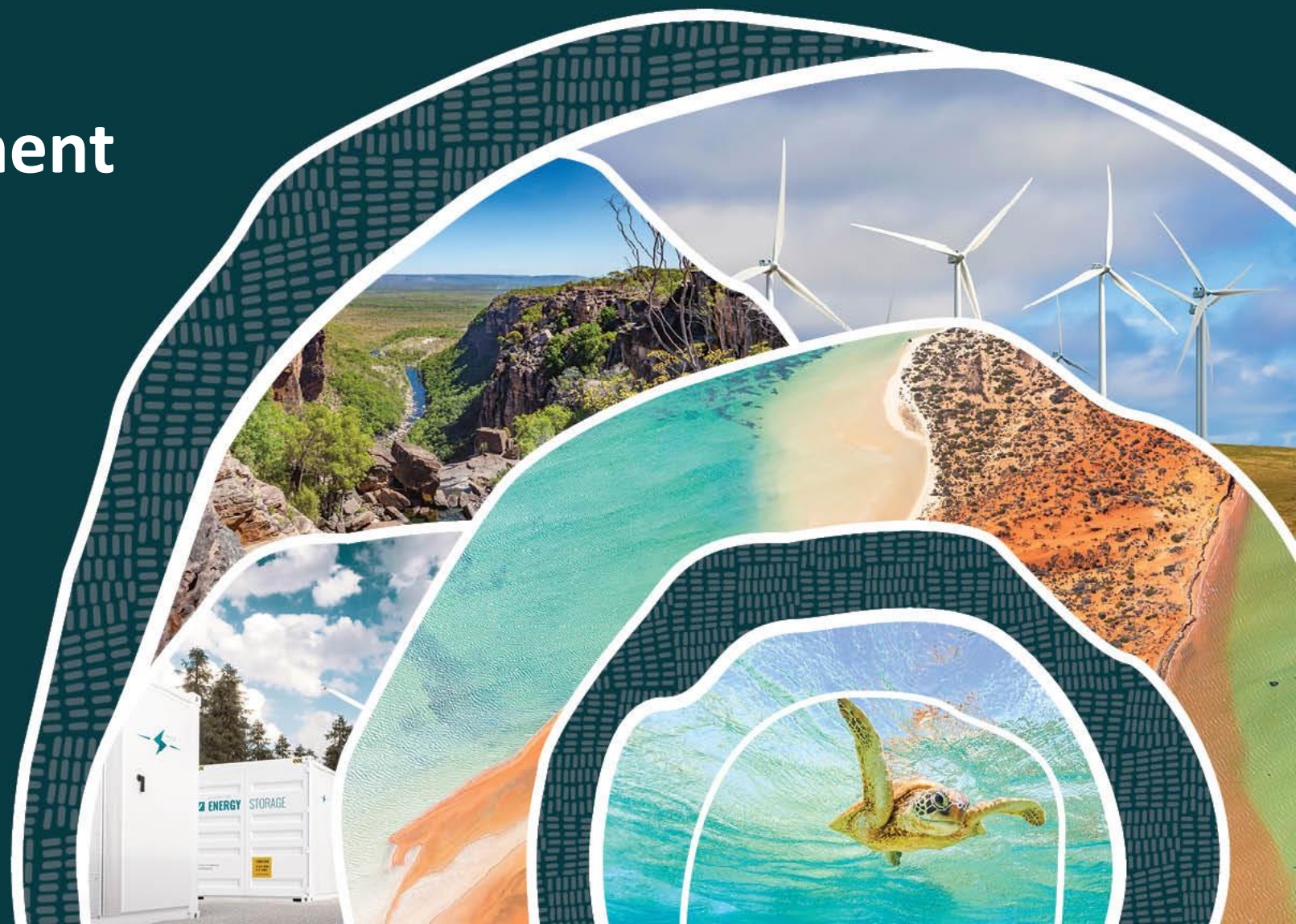
**Salim Mazouz (DCCEEW)**

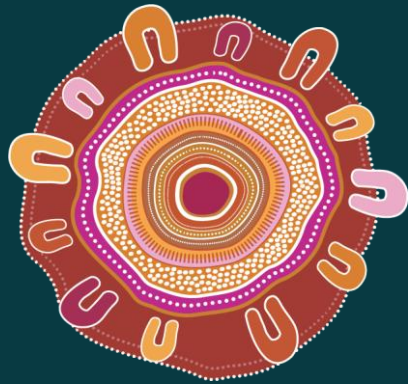
**Zoe Konovalov (DCCEEW)**

**Brad Hopkins (ASL)**

Date

**Friday 8 March 2024**





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 national rollout of the Capacity Investment Scheme (CIS). The national rollout of 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.

Any transaction implemented under the national rollout of the CIS will have its own terms set out in relevant disclosure and process documents. The reader should make their own inquiries of all relevant information and take necessary legal and other professional advice, before taking any action.

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# Our presenters today



**Matt Brine |**

*Head of Office – Office of the Capacity Investment Scheme, DCCEEW*



**Salim Mazouz |**

*General Manager – Office of the Capacity Investment Scheme, DCCEEW*



**Zoe Konovalov |**

*Director, Economic Analysis & Modelling Team – Office of the Capacity Investment Scheme, DCCEEW*



**Brad Hopkins |**

*General Manager – Commercial, AEMO Services*



# Purpose of today's discussion



Slido Q&A

1



Introduce the expanded Capacity Investment Scheme Design Paper

2



Overview of CISA products

3



Focus on 'Have your say' topics

4



Answer your questions



# The Capacity Investment Scheme



Deliver an additional 32 GW of capacity by 2030



Fill expected generation and reliability gaps as demand grows and ageing coal power stations exit



Support delivery of the Australian Government's 82% renewable electricity by 2030 target

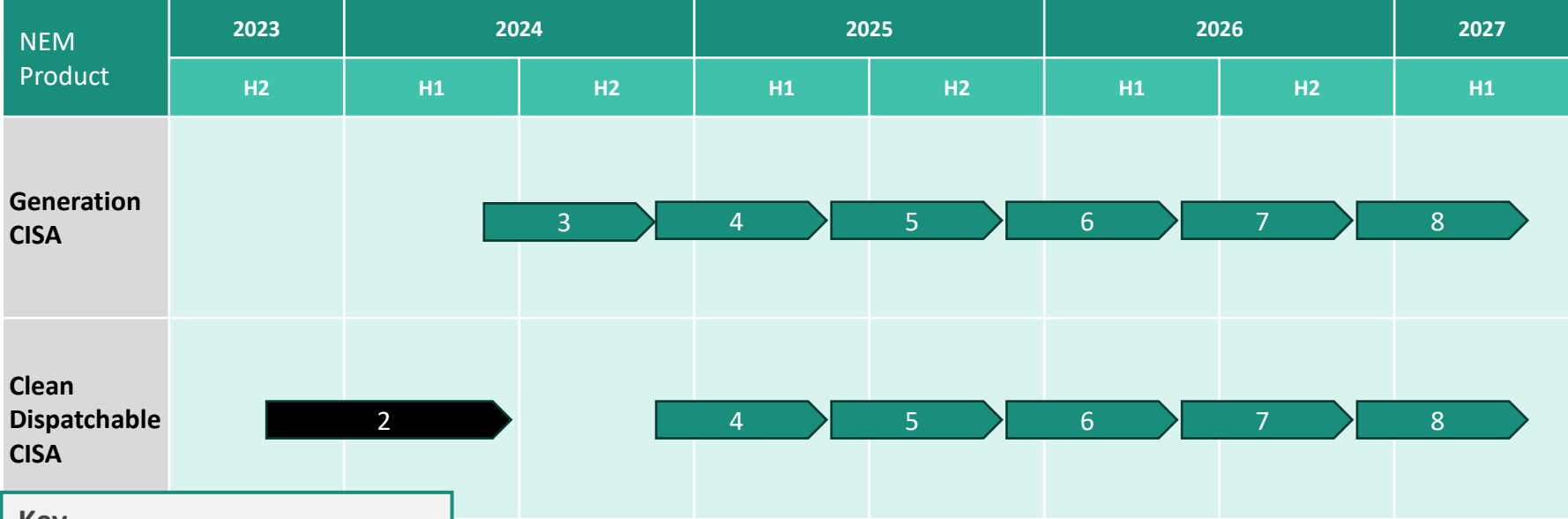
## Have your say

The Capacity Investment Scheme Design Paper has been released for feedback on the DCCEEW Consultation Hub.

Submissions close **March 25**.



# Indicative tender schedule for the NEM



Tender 3 is expected to seek:  
**6 GW** renewables across the NEM.

Tender 4 is expected to seek:  
**4 GW** renewables  
**3 GW** dispatchable across the NEM.

Tenders 5-8 will seek bids for the remainder of the total renewable and dispatchable capacity.

**Key**

- Current SA-VIC Tender (CIS2)
- Future NEM Tender (CIS3-8)

**Have your say**

**Cadence of tender schedule and products:** Would your organisation benefit 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?



# CIS products

## Shared Commercial Characteristics

- Underwriting support with a collar design with benefit and cost sharing outside collar
- Provisions around Eligible Wholesale Contracts

Further details to be provided in draft term sheets, likely to include:

- Biddable net revenue floor and ceiling, as in SA-VIC tender term sheet
- Symmetrical biddable payment cap, limits clawback, as in SA-VIC tender term sheet

## Generation CISA

- Net revenue is underwritten on a \$/MWh basis; project operator bears generation risk

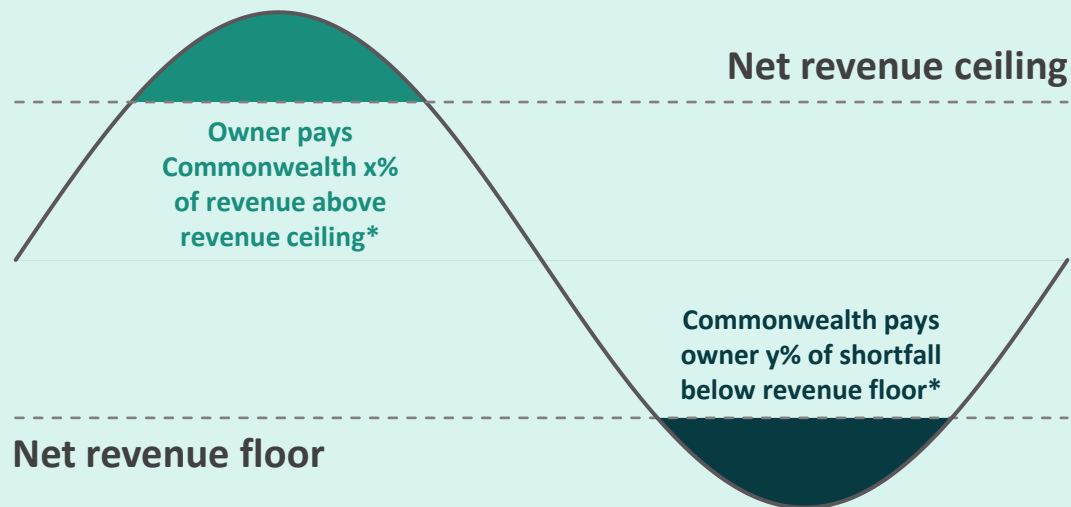
## Dispatchable CISA

- Total net revenue is underwritten
- Requirements around behaviour during LOR3 events

# Dispatchable CISA

## Total net revenue is underwritten, including:

- NEM spot and ancillary market participation,
- Any offtake contracts and other sources of off-market,
- All other revenue accrued by the Project Operator because of the project.



*\*Subject to annual payment cap*

## LOR3 Performance requirements:

Project must bid at least 50% of its contracted capacity for its minimum duration during an LOR3 event.

## Storage capacity requirements:

Project must have a tested storage capacity of at least the stated capacity in the CISA schedule for the support year.

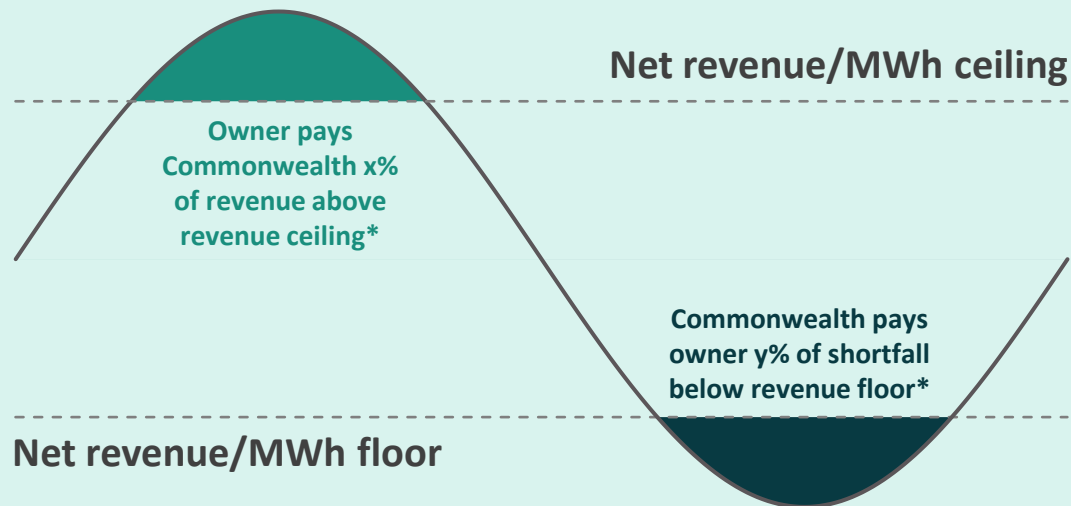
## Availability requirements:

Project must be available at least 90% during the support year.

# Generation CISA

## Volumetric net revenue (\$/MWh) is underwritten, including:

- Sales of electricity in the NEM wholesale market,
- Other sources of off-market revenue generated by the Project Operator,
- All other revenue accrued by the Project Operator.



*\*Subject to annual payment cap*

## Negative price provisions:

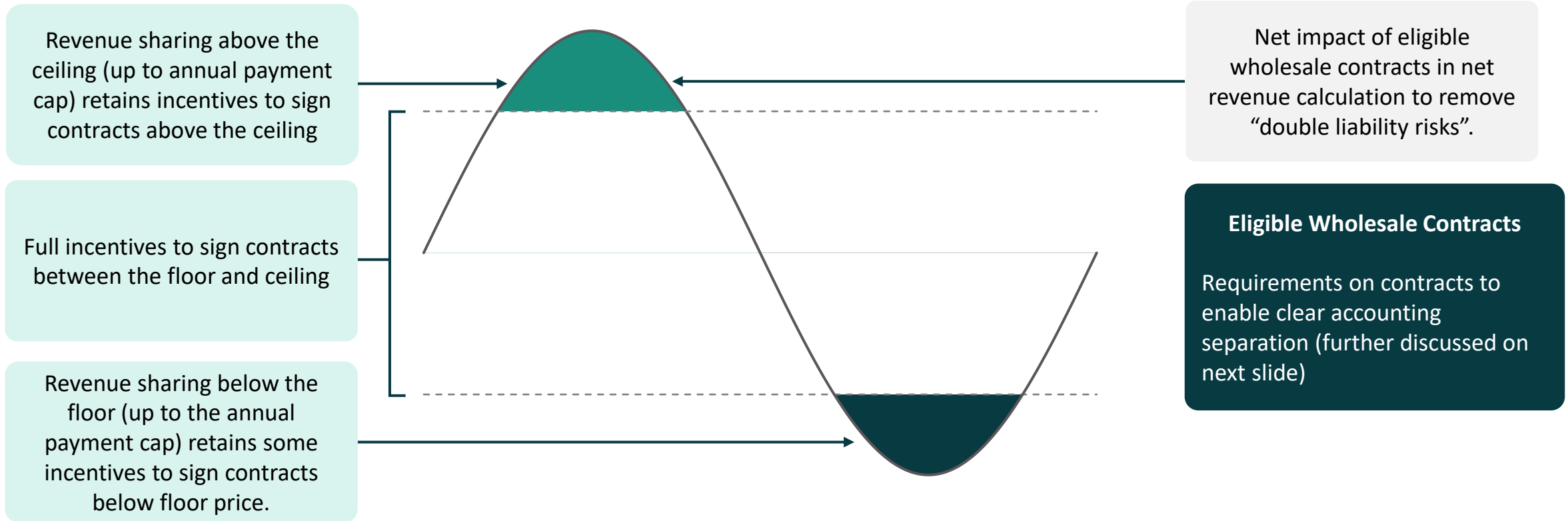
To maintain market signals, payments to the NEM pool due to negative prices are excluded from net revenue calculations (effectively deeming the price at \$0)

## Performance pay requirements:

Achieve a minimum level of generation (e.g. >75% of P90 each year).

# CIS and the contracts market

## CIS design features to preserve incentives to participate in the contracts market



### Have your say

We welcome feedback on risks to contract market liquidity and whether the design elements outlined are sufficient to preserve incentives to participate in the contracts market.

# Eligible Wholesale Contracts

**The CIS is designed to preserve incentives for participation in contract markets.**

A key design feature to support this is the inclusion of contract revenue within the net revenue. However, some limitations have been placed on contracts to ensure that the objectives of the CIS are preserved.

## **Eligible Wholesale Contracts must:**

- be agreed on an arm's-length basis;
- not expose the Project Operator to make payments where negative prices occur;
- be for 1 year or more; and
- not be for the primary purpose of changing payments under a CISA.

Where an Eligible Wholesale Contract is disallowed for any reason, the revenue for the contract will be assumed to be the greater of:

- 1) revenue received under the Eligible Wholesale Contract; and
- 2) revenue received had the electricity in each trading interval been sold at the wholesale price.

## **Have your say**

- 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?

# Ownership structure

## Ownership requirements:

- Projects must be owned by a Special Purpose Vehicle (note that under the alternative option structure discussed, this would not need to be required for generation projects.)
- SPV must be the Project Operator for the CISA.
- Project operator must be a registered NEM participant and receive all financial value associated with the Project.
- The Project Operator must be the counterparty to all revenue contracts associated with the Project.
- The Project Operator must not carry on any other business other than the Project.

## Design features:

- Establish clear and transparent structure for managing finances and segregates risks and liabilities of a CISA project.
- Allows for participation in contracts market through Eligible Wholesale Contracts by quarantining the CISA Project's contract revenue from an entity's portfolio.
- Ensure separation of the CISA Project from broader portfolio optimisation.
- Consideration of alternative bids where SPV requirement is a poor fit for a business model.

## Have your say

**Special Purpose Vehicle requirements:** 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?



# Alternative generation CISA features

DCCEEW has considered alternative design options for the Generation CISA to preserve incentives to participate in contract markets. These are discussed in Section 3.4 of the design paper.

## Option structure

- Option to enter into floor
  - Could be a one-time option or an ongoing rolling option
- Once exercised, ceiling always in effect for uncontracted capacity
- Green products to Australian Government

## Volumetric exclusion of contracted generation

- CIS floor and ceiling would apply to the revenue and volume that do not fall under an Eligible Wholesale Contract

- These design features would remove the requirement that generation projects be owned by an SPV
- However, transparent accounting to distinguish the project from other entity actions and contracts would still need to be agreed on an arm's length basis if the option is exercised
- Australian Government would have ability to on-sell exercised contracts
- This arrangement would more closely mirror NSW LTESA scheme

## Have your say

We welcome feedback on the alternative options to preserve incentives to participate in wholesale contracts markets.

# Tender governance and decision making

## Tender governance framework

Australian Government	Tender Delivery Partner
Sets the Policy Objectives, the objective of the tender, commercial in-confidence financial budget, the tender size and the terms of the CISA products.	Administers this competitive tender process (including communicating with Proponents)
The Minister for Climate Change and Energy (the Minister), on behalf of the Australian Government, will select the Proponents and projects to receive revenue support under the CIS, based on the recommendation of the Tender delivery partner.	Make recommendations consistent with the Tender Guidelines to the Australian Government.

## Tender process stages

<b>Stage A – Project Bid assessment</b>	<b>Project Bids</b> are assessed against the Proponent and Project eligibility criteria. Proponents and Projects for the Tender must satisfy the eligibility criteria before being competitively assessed against the merit criteria. The purpose of the Project Bid assessment is to select a shortlist of Project Bids to progress to Stage B – Financial Value Bid.
<b>Stage B – Financial Value Bid</b>	<b>Financial Value Bids</b> will be assessed against the Financial Value Bid merit criteria to determine a Financial Value Shortlist to progress to Stage C – Recommendations.
<b>Stage C – Due diligence &amp; Recommendations</b>	<b>Due diligence</b> may be undertaken. A <b>recommended</b> list of Bids will be provided to the Australian Government based on the outcomes of the merit assessment, due diligence and CISA contract finalisation.

# Eligibility criteria: projects must not have reached committed status before the relevant CIS announcement

- For Clean Dispatchable CISA tenders, all projects that did not reach committed status before the scheme's dispatchable announcement on 8 December 2022 will be eligible for consideration.
- For Generation CISA tenders, all projects that did not reach committed status before the CIS expansion announcement on 23 November 2023 will be eligible for consideration.
- The purpose is to ensure the acceleration of renewables deployment and reduce the risk of an investment hiatus in response to the CIS announcement.

# Eligibility and merit assessment

## Eligibility assessment

### Stage A – Project bid: eligibility assessment

#### Eligibility criteria

- Location and ownership
- Progress beyond 'early development'
- Technology contributing to zero emissions
- Intends to register with AEMO and minimum project capacity
- Expected development status of land tenure and connection approvals
- Technology, timing and delivery risk
- Participation in other schemes
- Compliance with law

## Merit assessment

### Stage A – Project bid assessment

- Project technical and commercial viability
- Proponent capability
- Australian Supply Chain, Community and First Nations engagement

### Stage B – Financial value bid

- Financial value
  - Generation Projects
  - Clean Dispatchable Projects
- Commercial departures
- Social license commitments

## Have your say

**Merit and eligibility criteria:** We welcome feedback on the proposed eligibility and merit criteria

# Hybrid projects

Hybrid projects are only intended to be eligible for the generation CISA and are expected to be defined as co-located generation and energy storage assets where both assets:

- Share a common connection point.
- Are registered (or intend to register) with AEMO as an Integrated Resource Provider.

The generation CISA will accommodate multiple hybrid contract configurations and may require amendments and additional obligations to enable novel hybrid project configurations.

Under this bidding option, only the generation asset will receive underwriting support. However, the associated asset will be able to provide wholesale market and system service benefits services which will contribute toward a more competitive merit assessment compared with non-hybrid projects.

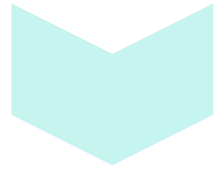
## Have your say

- 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 support this option?



Slido Q&A

# Next steps



Have your say on the CIS Design Paper – by 5:00pm AEST 25 March 2024



WA Design Paper



Upcoming Term Sheet and Tender Guidelines for April/May 2024 tender



April/May 2024 tender – NEM-wide bids from projects seeking a Generation CISA, with an indicative target of 6 GW renewable capacity



# Q&A

Join the discussion  
at [slido.com](https://www.slido.com)

Code: #3535545

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question to 0425 413 902





# Have your say

Have your say on the Capacity Investment Scheme Public Consultation Paper – by 5:00pm AEST, **25 March 2024**

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

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

Feedback from the August 2023 Consultation Paper process is now publicly available at:  
<https://consult.dcceew.gov.au/capacity-investment-scheme-public-consultation-paper>

# Contact us

[CapacityInvestmentScheme@dcceew.gov.au](mailto:CapacityInvestmentScheme@dcceew.gov.au)

For more information visit

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

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# Questions

## **Are committed projects eligible under the scheme?**

- Committed projects are only eligible if they reached committed status AFTER the relevant CIS announcement (8 Dec 2022 for clean dispatchable, 23 Nov 2023 for generation). If they progress further they remain eligible as long as they meet this criterium.

## **Are the LOR3 linkages in the scheme open to further consultation?**

- The LOR3 requirement had been included to support a core objective of the CIS, improving reliability in the National Electricity Market, with the LOR3 requirement intended to sharpen the incentive to reserve capacity in periods of greatest stress.
- The department will continue to consult on any issues regarding the LOR3 requirement, including in the lead-up to the release of the final CISA for the SA-Vic Tender.
- In the SA-Vic CIS tender, proponents had the ability to provide indicative contract departures as part of their stage A bid. The impact and consequences of departures will be considered and assessed by the department and will be considered when Stage B bid submissions open.

## **Does this design also cover WA?**

- WA has unique characteristics (primarily capacity market), will need to modify CIS design. WA specific design paper in progress, will be released in the near future.

## **How does the CIS relate to state based scheme's local content requirements?**

- No specific local content additional requirements, but proponents are asked to make binding social license commitments as part of their Stage B bids. State based local content schemes apply.

## **Are demand response/VPP projects eligible to participate in the CIS?**

Virtual power plants, demand response, and other virtual aggregation and flexible load technologies will not be eligible for the upcoming April/May generation CIS tender. However, the intention is to include these technologies in future clean dispatchable tenders.