

Minutes

Meeting Title:	WEM Investment Certainty Review (WIC Review)
Date:	29 May 2024
Time:	11:00 AM to 12:30 PM
Location:	Microsoft TEAMS

Attendees	Company	Comment
Dora Guzeleva	Chair	
Mena Gilchrist	AEMO	
Neetika Kapani	AEMO	
Sam Lei	Alinta Energy	Proxy for Oscar Carlberg
Graham Pearson	Australian Energy Council	
Rachael Smith	Australian Gas Infrastructure Group	
Francis Ip	BLT Energy Pty Ltd	
Daniel Kurz	Bluewaters Power 1 Pty Ltd	
Tom Frood	Bright Energy Investments	
Jake Flynn	Collgar Wind Farm	
Liz Aitken	Empire Carbon and Energy	
Julius Susanto	EnerCloud Consulting Pty Ltd	
William Street	Entego Group Pty Ltd	
Dr Matt Shahnazari	ERA	
Noel Schubert	Expert Consumer Panel	
Luke Skinner	Expert Consumer Panel	
Timothy Edwards	Metro Power	
Jorge Quezada	Nomad Energy	
Dale Waterson	Palisade Integrated Management Services	
Patrick Peake	Perth Energy	
Paul Arias	Shell Energy	
Shane Cremin	Summit Southern Cross Power Pty Ltd	
Fraser Maywood	Sustainable Energy Now	
Rhiannon Bedola	Synergy	

Ben Tan	Tesla Corporation	
Peter Huxtable	Water Corporation	
Valentina Kogon	Western Power	
Tim Robinson	Robinson Bowmaker Paul (RBP)	
Shelley Worthington	EPWA	

Item	Subject	Action
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1 Welcome

The Chair opened the meeting with an Acknowledgment of Country and welcomed members.

2 Meeting Attendance and Minutes

The Chair noted the meeting attendance as listed above.

The Chair noted that Minutes from 24 April 2024 WICRWG have been published.

3 Conflicts of interest and Competition Law

The Chair noted the obligations of WICRWG members under Australian Competition Law.

4 Using CIS outputs to determine renewable top-up

Mr Robinson summarised the discussion from the last WICRWG meeting noting that:

the preferred approach was a combination of approaches B and C in which the Commonwealth's Capacity Investment Scheme (CIS) outcomes are used as a benchmark while the CIS is running, and another benchmark is used when the CIS concludes; and

the analysis around what happens if a renewable facility is the benchmark capacity provider is provided in the Appendix.

Mr Robinson provided an overview of the WA CIS and noted that offers by renewable generators into the CIS are based on both a \$/MW and \$/MWh cap and floor, and define the total amount of annual top-up recovery for each CIS Agreement (CISA) holder. Mr Robinson clarified that capacity refunds and periods of negative pricing are excluded to maintain incentives for facilities to be available.

Mr Robinson provided an example of the CIS top-up, which demonstrated that although there are two ceilings and two floors, these are not considered in isolation.

- Mr Schubert questioned whether the '\$2,000,000 per MW of Capacity Credits' assumed on slide 8 is an annual figure or a total capital cost per MW of Capacity Credits. He considered that this did not seem to be realistic compared to typical Reserve Capacity Price of say \$300,000/MW per annum (on the same slide).

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	<p>Mr Robinson confirmed that the "0.9" in the second last line of slide 8 was meant to be removed.</p> <p>Mr Robinson explained that the CIS will determine a revenue top-up for each successful project. He outlined three proposals for how this can be used:</p> <ol style="list-style-type: none"> 1. Apply the average CIS contracted floor and cap figures to non-CIS facilities; 2. Calculate the average top-up paid to CISA facilities per MW of Capacity Credits, and pay this to non-CISA facilities; or 3. Calculate the average top-up paid to CISA facilities per MWh generated and pay that to non-CIS facilities based on their generation in periods with prices above zero. <p>EPWA proposes option 3 - eligible facilities paid per MWh, based on CIS payments.</p> <ul style="list-style-type: none"> • Mr Lei questioned whether the top-up is required and was not sure whether the grid has enough capacity to reach the CIS target. He raised concern that the top-up for non-CIS facilities may distort the market by incentivising new facilities, which are not needed but which customers will need to pay for. He questioned whether this scheme is currently needed, and suggested that it could be introduced to incentivise new facility build when needed. <p>Mr Robinson agreed that it is important to consider the timing of when this scheme might be needed.</p> <ul style="list-style-type: none"> • Mr Peake considered that excess wind is needed for high reliability, which means excess capacity. He considered that if the payment is on a MWh basis, it should be calculated on actual plus potential wind to ensure payments do not drop away in some years and help reduce investment risk. <p>The Chair agreed that the reliability criteria must always be met.</p> <ul style="list-style-type: none"> • Mr Schubert questioned whether payments to facilities should recognise the value of different technologies by differing payments. <p>The Chair noted that this scheme needs to be as less complicated as possible.</p> <ul style="list-style-type: none"> • Dr Shahnazari noted concerns that option 3 would result in perverse outcomes in the market. He noted that option 3 provides a top-up rate (at an average price) per MWh of energy produced when energy market prices are positive which he considered has a few problems: <ul style="list-style-type: none"> ○ under such mechanism, renewables will consider the opportunity cost of missing on the top-ups if market prices turn negative and may offer at positive price levels to avoid missing on the top up; ○ intuitively, and if required at all, one would expect a top up would be needed during periods prices are lower (rather than higher); and 	

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	<ul style="list-style-type: none"> ○ with high penetration of renewables prices tend to be negative more frequently and it is not clear if the top up paid to non-CIS would cover their investment cost gap. ● Dr Shahnazari considered that if a top-up is needed, option 1 is his preferred option. ● Mrs Bedola noted concerns around the CIS being on a Capacity Credit basis noting risks with changes in network capacity and ESROI. <p>The Chair emphasised the importance of not distorting the market and the need to avoid proponents not applying for the CIS, and noted the importance of timing.</p> <ul style="list-style-type: none"> ● Mr Frood considered that the spilling of wind is due to both economic and technical curtailment and these need to be considered. ● Mr Ip preferred more flexibility and liked EPWA to consider capturing the negative pricing periods such that it is consistent with the CIS methodology and in a way that it treats all renewable facilities equally and not simply prioritising wind projects while penalising others. <p>Mr Robinson presented the two approaches that could be used to incentivise participation in the CIS - the lowest CIS payment or the average CIS payment multiplied by a discount factor</p> <ul style="list-style-type: none"> ● Mr Skinner preferred the lower CIS payment. ● Mr Schubert agreed. ● Mr Peake asked whether this would be enough to encourage investment. ● Mr Frood asked whether a standard deviation formula can be used rather than an arbitrary number. <p>Mr Robinson considered that a standard deviation formula can be used but there would still need to be an arbitrary point chosen on the curve.</p> <ul style="list-style-type: none"> ● Mr Lei noted support for the lower CIS payment, noting that an average payment may incentivise developers to not pursue the CIS as they would still get the average payment. <p>Mr Robinson questioned whether providing a lower top-up than the CIS, which already chose the most cost-effective projects, will be enough to make the non-CIS projects whole.</p> <p>Mr Robinson presented the post-CIS options and noted that the indicative approach is to use the final year CIS results with a deflator, but to review once CIS commences.</p> <ul style="list-style-type: none"> ● Mr Schubert questioned whether what happens post-CIS needs to be decided now, noting that it is a long way off. ● Mrs Bedola asked whether the deflator is applied across the board or new facilities to account for deflation in price in the entry year, noting that facilities with older technologies will have higher costs and the deflator may reduce investor certainty if it changes year on year. 	

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	Mr Robinson responded that this would be considered, as the initial proposal is that this changes year on year.	
5	<p>Other topics</p> <p>Mr Robinson noted that, to be eligible, a facility will need to be powered by renewable sources, receive capacity credits and have been accepted in the first round of the CIS tender but not successful in the second round.</p> <ul style="list-style-type: none"> Mrs Bedola asked whether ‘powered by renewable sources’ is intended to be the same as in the CIS. <p>The Chair clarified that this is about renewables, not batteries.</p> <ul style="list-style-type: none"> Ms Aitken did not consider that it is appropriate to require facilities to participate in the CIS as this should be a stand-alone scheme. <p>The Chair responded that participation in the CIS needs to be encouraged.</p> <ul style="list-style-type: none"> Mr Lei asked if non-CIS facilities will need to opt in the scheme or if all facilities would automatically be part of the scheme. <p>Mr Robinson responded that they would need to opt-in because evidence needs to be shown for eligibility.</p> <ul style="list-style-type: none"> Mr Lei asked, if a facility were to hit the cap, does it pay money back to the market so the scheme is not just all downside protection. <p>Mr Robinson responded that a cap on upside has not been included yet and welcomed feedback on the necessary balance.</p> <ul style="list-style-type: none"> Mr Tan asked what would happen to facilities excluded from the CIS, for example <30MW facilities. Ms Aitken noted the risk that only facilities <20MW can connect during the CIS period due to transmission upgrade delays. <p>The Chair noted that there may be no need for a size cutoff for this top-up scheme.</p> <ul style="list-style-type: none"> Mr Skinner reinforced the importance of including smaller projects not eligible for the CIS and considered that an administered option may lead to better outcomes and projects for WA. Mr Schubert asked whether the CIS payment details will be made available or kept confidential. <p>The Chair responded that, she understood, at least the ranges will be published.</p> <p>Mr Robinson presented options on timing and noted that EPWA’s proposal is to begin support in the 2028 Capacity Year which is the capacity year following the first CIS payments.</p> <p>The Chair summarised the timing options which were suggested and asked members for feedback:</p> <ul style="list-style-type: none"> after the first payments have been made under the CIS in time for the 2028 Reserve Capacity Cycle; 	

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	<ul style="list-style-type: none"> ○ after the last tender commences, ~2027; or ○ after the last year in which payments commence, ~2029. <ul style="list-style-type: none"> ● Mr Lei suggested that it may be too early to determine the timing, and the top-up could be triggered if renewable targets are not being met. ● Mr Peake noted support for having the scheme ready as soon as it may be needed and that the 2028 Capacity Year sounds fair even if the payment is zero. ● Ms Aitken considered that, if payments are zero, this means the generators are being kept whole by the market. ● Mrs Bedola asked what the timing of the to-up will be in relation to the Reserve Capacity Cycle, and noted that this should allow enough time so proponents who apply in the capacity cycle know they will get the top-up. <p>The Chair asked if the WICRWG thought this should be implemented before the CIS has run its tenders or after.</p> <ul style="list-style-type: none"> ● Mr Schubert considered that this should not be decided now. ● Mr Skinner considered that this is hard to answer now as it is not clear whether the CIS has provided the needed capacity and, if not, consider if this top-up is still need as a capacity incentive. <p>The Chair then asked when the design needs to be concluded.</p> <ul style="list-style-type: none"> ● Mrs Bedola considered that this should be parked until more is known about the CIS. ● Mr Lei and Mr Ip agreed with Mrs Bedola. ● Mr Skinner considered that this should only be implemented if there is extra requirement for capacity that is not being met via the CIS and that conclusion of design and decision on commencement could not be made prior to further clarity of the CIS. <p>Mr Robinson proposed presenting to the MAC:</p> <ul style="list-style-type: none"> ○ the work that has been done to date; ○ that further clarity needs to obtain on the final design of the CIS renewable generation tender, after which further design work can be undertaken; ○ that payments should not start unless the CIS is not incentivising the needed capacity; and ○ that payments should be able to be zero. <ul style="list-style-type: none"> ● Mr Ip agreed with Mr Robinson's approach regarding timing. ● Mr Frood considered that more clarity on both the MW auctioned under the CIS and the MW gap following coal closures is required. He considered that the design of the top-up can be done then, as what capacity is still required will be clear. 	

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	<p>The Chair proposed that the next discussion is postponed until after details of the first renewable energy CIS tender is available.</p> <ul style="list-style-type: none"> Mrs Bedola agreed with the Chair. Mr Peake considered that the design should be ready when the WA CIS results are announced. He considered that if the CIS did not work for WA, then a framework to encourage new facilities will be available. He considered that the CIS tender documents need to be available before designing the top-up. <p>The Chair summarised that the discussion will be parked until the Commonwealth releases details of the WA CIS.</p> <ul style="list-style-type: none"> Mr Flynn asked whether this needs to wait for certainty on LGCs. <p>Mr Robinson responded that the LGC scheme will finish in 2030, and this scheme may replace it.</p> <ul style="list-style-type: none"> Mr Flynn considered that if there is a voluntary LGC scheme successor that provides a revenue stream, this should be considered. Mr Froot asked if this scheme is aimed at a particular technology type. <p>The Chair responded that this can be any renewable technology.</p> <ul style="list-style-type: none"> Mr Skinner considered that there needs to be a way of determining how much capacity is required under the scheme. <p>The Chair clarified that the CIS is not assumed to cover all of WA' reliability gaps, and that much of this will continue to be covered by the RCM.</p> <ul style="list-style-type: none"> Mr Froot agreed with the Chair. Mr Skinner agreed with completing the design and being ready to implement the scheme as soon as the CIS is unable to bridge the reliability gap. Mr Schubert considered that this will depend on whether we need capacity or renewable energy (e.g. to charge BESS). Mr Schubert asked if this is trying to encourage firm renewable generation too. <p>The Chair responded that this is not specifically encouraging firm renewable generation.</p> <ul style="list-style-type: none"> Mr Lei noted the importance of ensuring that facilities that receive both Capacity Credits and the top-up will be available for the peak. 	

6 Next steps

The Chair summarised that:

- the recommendation to MAC will be to wait until details for the WA CIS have been confirmed; and
- this initiative will be parked until there is further clarity on the CIS application in the WEM.

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7 General Business

No general business was discussed.

The meeting closed at 12:30pm