

Minutes

Meeting Title:	WEM Investment Certainty Review (WIC Review)
Date:	24 April 2024
Time:	9:30 AM to 11:00 AM
Location:	Microsoft TEAMS

Attendees	Company	Comment
Dora Guzeleva	Chair	
Mena Gilchrist	AEMO	
Oscar Carlberg	Alinta Energy	
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	
William Street	Entego Group Pty Ltd	
Dr Matt Shahnazari	ERA	
Noel Schubert	Expert Consumer Panel	
Luke Skinner	Expert Consumer Panel	
Timothy Edwards	Metro Power	
Dale Waterson	Palisade Integrated Management Services	
Patrick Peake	Perth Energy	
Tessa Liddelow	Shell Energy	Proxy for Paul Arias
Rhiannon Bedola	Synergy	
Ben Tan	Tesla Corporation	
Peter Huxtable	Water Corporation	
Valentina Kogon	Western Power	
Tim Robinson	Robinson Bowmaker Paul (RBP)	
Shelley Worthington	EPWA	
Tonia Curby	EPWA	
Sean McAvoy	EPWA	

Item	Subject	Action
1	<p>Welcome</p> <p>The Chair opened the meeting with an Acknowledgment of Country and welcomed members.</p>	
2	<p>Meeting Attendance and Minutes</p> <p>The Chair noted the meeting attendance as listed above.</p> <p>The Chair noted that Minutes from 8 November 2023 WICRWG have been published.</p>	
3	<p>Conflicts of interest and Competition Law</p> <p>The Chair noted the obligations of WICRWG members under Australian Competition Law.</p> <p>For transparency, Mr Robinson noted that RBP is consulting for a Market Participant to investigate its exposure to the new Essential System Services charges in the market, but that he did not consider this to be a conflict of interest for his work on the WIC Review.</p>	
4	<p>Support for renewable investment - recap</p> <p>Mr Robinson provided a recap of the support for renewable investment initiative (initiative three) and noted that:</p> <ul style="list-style-type: none"> • modelling completed through the Reserve Capacity Mechanism (RCM) Review showed that energy market prices may trend down; • changes in the Commonwealth initiatives such as removal of the Renewable Energy Target (RET) and introduction of the Capacity Investment Scheme (CIS) require consideration; and • the objective of initiative three is to investigate the potential need for support for renewable investment. <p>Mr Robinson presented the design criteria which is to ensure that:</p> <ul style="list-style-type: none"> • investment certainty is provided without covering inefficient oversupply and removing all of the risk; • the approach is simple and predicable, where possible; • an administered price is avoided to ensure competitive pressures of the market are maintained; • double dipping is avoided and to ensure proponents share the same incentives; • end-user energy prices do not increase compared to previous levels; and • security of supply is maintained. <p>Mr Robinson summarised discussion from the last WICRWG meeting:</p> <ul style="list-style-type: none"> • members discussed whether this issue could be addressed through the RCM, i.e. the Benchmark Reserve Capacity Price (BRCP) technology could be set to intermittent renewables; 	

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- some members preferred initiative three to be designed as a targeted revenue stream for renewables, separate to the RCM;
- an up-front capital contribution from government is not an option;
- the design should maintain incentives to produce energy and participation in the CIS and avoid customers paying for something that would have happened anyway; and
- it is reasonable for developers to bear time and budget risk, and consumers to bear energy price risk.

Mr Robinson presented the options, which were agreed to be considered in the last WICRWG meeting, and noted that options B and D had the most support by members:

- A – an energy purchase obligation similar to the RET;
- B – a capacity-based revenue top up, linked to CIS outcomes;
- C – a price guarantee linked to pricing in a trigger year with a cap and a floor; and
- D – setting the BRCP based on renewable generation capital cost.
- Mrs Bedola considered that understanding how the approach will be paid for is key to deciding between the options. She noted that how cost is placed on consumers (RCM or through energy) and what customers are paying for (peak or reliability) have different outcomes.

The Chair noted that this initiative would be paid for through the market to address deficiencies in the energy market, and that the cost to consumers would not exceed what it would have been before the initiative is implemented, and noted that this will be discussed in the future.

5 Commonwealth Capacity Investment Scheme

The Chair noted that the Commonwealth had published the Western Australian CIS design paper and that EPWA worked with the Commonwealth to ensure alignment with the WEM and the RCM. The Chair provided an overview of the proposed CIS design.

The Chair noted that there are two types of contracts to be issued - clean dispatchable capacity (storage), which receives \$/MW per Capacity Credits held, and generation capacity (intermittent), which receives two components, \$/MWh of generation and \$/MW of Capacity Credits held.

The Chair noted that there will be two assessment stages, including an expression of interest stage, with the final stage completed by early 2025.

The Chair highlighted that facilities participating in the 2024 Reserve Capacity Year are eligible for the CIS, but the first auction is only for clean dispatchable capacity.

- Mr Schubert considered that a \$/MW payment only would incentivise smaller energy storage capacity/duration because it is cheaper.

The Chair noted that there is a 30MW size floor for ESR capacity and the battery will need to contribute to reliability for a 4-hour duration.

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	<ul style="list-style-type: none"> Ms Aitken asked whether proponents are expected to work out total net revenue / gross profit required per annum and divide by expected Capacity Credits or MW installed. <p>The Chair responded that she cannot speak for proponents.</p> <ul style="list-style-type: none"> Mr Carlberg asked, if a generator receives less Capacity Credits due to performance, would the amount of revenue top-up also decrease. <p>The Chair confirmed this and noted that CIS is designed to incentivise efficient location and maximise generation without distorting the market.</p> <ul style="list-style-type: none"> Mr Tan asked what would happen if a facility lost Capacity Credits due to the NAQ or network constraints. <p>The Chair responded that once assigned, a facility cannot lose Capacity Credits due to NAQ, but confirmed that, as designed, the risk of losing Capacity Credits due to network constraints is not protected by the CIS and the facility would receive a lower payment.</p> <ul style="list-style-type: none"> Mrs Bedola also raised concern about the risk with NAQs. 	
6	<p>Next steps</p> <p>EPWA proposed to take forward approaches B and D.</p> <ul style="list-style-type: none"> Ms Aitken asked why approach C was being removed, noting the possibility that a renewable generator has Capacity Credits but does not receive CIS funding. <p>The Chair agreed to exploring this using a historical benchmark in the event that the CIS is discontinued, and to combine approaches B and C.</p> <ul style="list-style-type: none"> Mr Huxtable asked why approach A was excluded. <p>The Chair responded that recreating the RET in WA would be costly.</p> <ul style="list-style-type: none"> Mr Carlberg asked whether approach D would increase the BRCP. <p>Mr Robinson clarified that it would.</p> <p>The Chair noted that she had strong concerns about how approach D would interact with the CIS and potential complexities to ensure no perverse incentives are created.</p> <ul style="list-style-type: none"> Ms Gilchrist sought to clarify whether approach D was to actively change the reference technology to a renewable generator. In response to Ms Aitken's comment, she asked whether this approach would mitigate the risk of the disconnect between the timing of the CIS and new connections over time. <p>Mr Robinson responded that this approach was included for the WICRWG to consider whether this would happen organically, how would it change the incentives if actively changed, and what would this mean for storage.</p> <ul style="list-style-type: none"> Dr Shahnazari considered approach D to be the simplest approach because the RCM is already able to address the issue of decreasing revenue in the energy market. He considered that, in this situation, renewable technology would set the BRCP because there would not be enough energy for the batteries to charge and 	

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	<p>thus batteries' cost per unit of capacity credit will increase beyond that of renewable energy technologies. In such situation, a renewable plant will be the marginal plant for capacity, and by setting the BRCP will ensure renewables will recover their investment costs.</p> <p>The Chair agreed with Dr Shahnazari, and noted that this was why she considered that the option to force a change to the BRCP should be avoided, but that the BRCP may need to move with time to reflect capacity shortfalls. She noted that, if renewables are not setting the BRCP, there needs to be another mechanism in place to support renewables.</p> <ul style="list-style-type: none"> Mrs Bedola asked whether approach D would have to be adjusted for the Relevant Level Method (RLM). Ms Aitken responded that the RLM would be an issue for the CIS if the denominator is 'number of capacity credits' rather than 'MW installed'. <p>The Chair clarified that the CIS was created to improve reliability, which is why it is based on capacity credits rather than nameplate.</p> <ul style="list-style-type: none"> Mr Schubert noted that, if the BRCP was based on renewables, it would result in a very high BRCP, which would result in, for example, renewable fuel plants receiving a higher payment than needed for cost recovery. <p>The Chair clarified that there was no guarantee that the BRCP would move to a renewable technology.</p> <ul style="list-style-type: none"> Ms Aitken noted that the RLM and the NAQ is linked to network access and can lead to distorted outcomes without accountability on the network operator itself through a market mechanism. She considered that the challenge is when clustered intermittent generators may lose capacity credits due to the RLM while other projects cannot connect to better locations due to network issues. <p>The Chair clarified that Western Power is required to look at market outcomes when developing the Transmission System Plan and that this gets consulted on.</p> <ul style="list-style-type: none"> Mr Peake noted concern that approach C does not protect against annual wind variation. <p>The Chair noted that the CIS is designed this way to protect against generators not generating and encouraged Mr Peake to make a submission in the CIS consultation.</p> <p>Mr Robinson noted that proponents have flexibility in how they offer and structure their CIS \$/MW and \$/MWh offers.</p> <ul style="list-style-type: none"> Mr Carlberg considered we should address what risks we do want to protect for and the risks we do not want to protect for. Mr Edwards considered that the 30MW facility restriction of the CIS should be carefully considered, noting that if new transmission cannot be delivered on time, distribution would be important for storage. 	

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	<ul style="list-style-type: none"> Mrs Bedola noted the complication with how the CIS ties in with capacity credits, capacity factor, the RLM and NAQs. Mr Peake noted that generation is becoming like transmission, with very high capital and a small variable cost, and that this should be learned from regarding allocating cost to consumers. <p>The Chair noted that this was not in scope for this review.</p> <p>The Chair summarised the discussion by noting that members supported:</p> <ul style="list-style-type: none"> to combine approaches B and C, with option C operating beyond the conclusion of the CIS; that a prerequisite for the Approach B is that a Facility has to first apply to participate in the CIS; that approaches A and D (deliberately changing the BRCP) will not be considered further; and to have clarity around how risks are addressed. <ul style="list-style-type: none"> Mr Peake suggested to make the WA top-up less attractive than the CIS, so proponents apply for the CIS first, with the WA scheme as a fallback. Dr Shahnazari considered that approach B does not seem reasonable as the RCM will provide for additional revenue to capacity resources when the revenue from the energy market drops. <p>The Chair noted concern that the market would be distorted without approach B, as only some facilities would receive CIS support.</p> <ul style="list-style-type: none"> Dr Shahnazari considers that the CIS is a risk mitigation contract between the government and capacity resources. He did not think that changes to the RCM are necessary to account for this bilateral contract. <p>The Chair considered that, if one entity is subsidised, while another it not, this may lead to a distortion of the market as the subsidy receiver may reflect this in their energy market offer price.</p> <ul style="list-style-type: none"> Dr Shahnazari considered that the CIS provides value to investors by mitigating investment risks. While he did not consider an adjustment to the RCM is needed due to the CIS, he explained, hypothetically and in principle, one would deduct the value the CIS provides from market payments to ensure everyone competes on a level playing field. Mr Carlberg agreed with Dr Shahnazari, and noted the difficulty of designing a mechanism to fix the perverse impacts created by the CIS while it is not known what they are yet. <p>Mr Robinson noted that EPWA will present a more developed proposal at the next WICRWG meeting.</p> <p>The Chair summarised the meeting chat noting support for designing a scheme less attractive than the CIS to act as a fallback.</p> <ul style="list-style-type: none"> Mrs Bedola asked what the timeframe for this initiative is. 	

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		The Chair responded that it would need to lag behind the CIS, and would commence roughly two years after the first round of the CIS.
7	General Business	
		No general business was discussed.

The meeting closed at 11:00 am