

31 August 2023

Hon. Chris Bowen MP
Minister for Climate Change and Energy
Commonwealth Government

Dear Minister,

RE: Capacity Investment Scheme – Public Consultation Paper

Squadron Energy welcomes the opportunity to respond to the Commonwealth's *Capacity Investment Scheme (CIS) – Public Consultation paper*.

Squadron Energy is Australia's leading renewable energy company that develops, operates and owns renewable energy assets in Australia. We have 1.1 gigawatts (GW) of renewable energy in operation and an Australian development pipeline of 20GW. Our development pipeline has projects at differing stages of development and includes wind, solar and firming capacity such as batteries and gas peaking plants with dual fuel capability. With proven experience and expertise across the project lifecycle, we work with local communities and our customers to lead the transition to Australia's clean energy future.

We generally support the Commonwealth's proposed CIS and approach to investment in dispatchable capacity as the energy system transitions. In this submission we would like to raise several points:

- clarity is needed in the guidance on floor and ceiling parameters, along with consideration of the implications of the "revenue sharing %" on existing incentives and market signals;
- clarity on the timing of tenders is important to ensure projects and financial bids are viable;
- the CIS design should remain flexible to accommodate technological developments and emerging commercial and contracting structures.

Clarity on the floor and ceiling parameters and "revenue sharing %" is important to align the CIS with existing market signals and incentives

Overall, we are supportive of the design of the payment mechanism including revenue payments below the floor and sharing upside above the ceiling. While the simplicity of the proposed payment mechanism is welcome, further clarity on how floor and ceiling parameters will be assessed (including in relation to the proposed reliability target) and the 'x' value of the respective revenue sharing percentages is needed. These features are important as they will not only impact project bids, but they will also determine how the CIS works alongside existing wholesale and contract markets.

In the context of the risk of increased project costs as a result of a broad range of factors (e.g. transmission delays, supply chain constraints, rising material and financing costs), the floor and ceiling should be set at levels that accommodate the elevated risks that financiers face. If the revenue cap is set too low and the percentage of revenue clawed back above the ceiling is weighted heavily in favour of the contracted government entity, then the mechanism may have implications for asset operators' incentives to participate in the CIS weighed against the potential benefit from exposure to high wholesale prices.

A related feature of the proposed mechanism is that projects will remain able to participate in wholesale contract markets on an arm's length basis. It is understood that revenues from these 'eligible wholesale contracts' will be included in net revenues for a project. This is a key feature of the proposed mechanism

and is welcomed. However, further clarity is needed on what constitutes an 'eligible wholesale contract' and how the requirements to attribute a contract to a specific project would work in practice.¹

Clarity on the timing of competitive tenders is important to ensure financial bids are reflective of market conditions and support the viable projects

To further support investment certainty and the timely delivery of projects under the CIS, it is important that there is clear guidance on the timeline for future tender opportunities. It may be the case for various developers that the first tranche of CIS auctions will be too early to confidently make financial bids for earlier stage projects. Adopting a staggered timeline with indicative tenders through to 2027 will enable projects at various stages to participate. This approach will also encourage the participation of well progressed projects with a greater level of deliverability as developers would likely seek to participate in the CIS closer to the construction phase of a project.

Relatedly, a clear tender plan with indicative timing will also provide a greater level of investment certainty for developers and financiers as bids can then be more closely aligned to the target financial investment decision and/or project financial close. This will limit the possibility or extent that cost escalation between the Project bid stage and the Financial bid stage leads to the project no longer being viable.

The CIS design should remain flexible to accommodate technological developments and emerging commercial and market structures

Given the rapidly changing technological, commercial, and regulatory environment, it is important that the design of the CIS continues to remain fit for purpose as the needs of the energy system change. The design of the CIS should therefore allow for key variables to be adapted and refined. For example, minimum duration requirements should not be too prescriptive as they may need to change as technologies develop and/or how wholesale contracting processes are aligned with the scheme given changing market conditions, commercial and product structures.

We recognise the proposed design of the CIS includes some flexibility to complement and work alongside existing state and jurisdictional schemes. While the CIS may be complementary to the purpose of various renewable energy zones (REZ) to coordinate the location of renewable generation, we consider that CIS eligibility should remain broad and not be subject to restrictions to locate within a REZ. Enabling broad participation in the CIS will result in a bigger pool of projects and will also utilise the ability of storage to manage challenges on the shared network that may result from additional delays in REZ build out or early coal exit (e.g. congestion or capacity shortfalls).

We look forward to the opportunity to continue to work to support the rapid decarbonisation of the electricity system. If you would like to discuss this submission please contact Rupert Doney – Director, Policy and Regulation at rdoney@squadronenergy.com

Yours sincerely,



Graham Denton, Head of Energy Markets

¹ Note that wholesale contracts are not always attributable to a specific project, particularly where those contracts are structured around a portfolio of projects.