



Thursday, 8 May 2025

Energy Policy WA
Level 1
66 St Georges Terrace
Perth WA 6000

CEC submission to EPWA on the Tranche 8 Electricity System and Market Amending Rules

Dear Ms Dora Guzeleva,

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia, representing nearly 1,000 of the leading businesses operating in renewable energy, energy storage, and renewable hydrogen. The CEC is committed to accelerating the decarbonisation of Australia's energy system as rapidly as possible while maintaining a secure and reliable supply of electricity for customers.

The CEC welcomes this opportunity to provide feedback to Energy Policy WA (EPWA) on behalf of its members in relation to the Tranche 8 Electricity System and Market Amending Rules.

In summary, while the CEC supports the proposed extension of the revenue protection arrangements from 5 to 10-years, our preference is for these arrangements to be further extended to 15 years to better align with the benchmark reserve capacity price (revenue), and debt repayment processes. The CEC is also supportive of the proposed amendments to the RCS uplift payments where a registered facility is directed to synchronise by AEMO to provide a rate of change of frequency (RoCoF) control service as it will no longer negatively impact energy storage resources charging in the middle of the day – helping to reduce minimum system load issues.

However, the CEC remains concerned with the proposed changes to the methodology to determine the electric storage resources obligation duration and requirement, as our members consider this has the potential to disincentivise the timely investment in energy storage resources in Western Australia and inflate costs for developers and the market more generally. As such, the CEC recommends EPWA set the value at 4 hours for inclusion in the 2025 ESOO and undertake a more fulsome review of the methodology to appropriately signal the need for long duration storage in the future.

Each of these points is further elaborated in our submission below.

Methodology to calculate electric storage resources obligation duration (ESROD) and electric storage resources duration requirement (ESRDR)

The CEC understands that a change to the current methodology to calculate the ESROD is required as the current methodology would result in an overly long obligation (approximately 15.5 hours), which is longer than the current fuel requirements (14-hours) for incumbent fossil-fuelled generators.

While the CEC is broadly supportive of the need for the ESROD and ESRDR to increase over time to signal the need for more long duration energy storage in the WEM, the CEC is concerned that EPWA has not truly attempted to define the principles by which the ESRDR will be set, and its proposal to align the availability duration gap (ADG) with respect to a 1 in 10-year peak demand scenario, and subsequently derate the storage resources by extending the ESROD until the ADG equals zero could result in unintended consequences.

At the TDOWG meeting on 1 May 2025, EPWA indicated that this derating would not necessarily result in a change in the size of battery systems (currently of four hours duration – 200 MW/ 800 MWh) installed in the SWIS, but there is a risk that an extension in the ESRDR could result in either a significant increase in the benchmark reserve capacity price (BRCP) – delivering windfall gains to incumbents – or a further change in the benchmark technology type used to set the BRCP from energy storage back to an open cycle gas turbine (OCGT).¹ In future considerations of whether the benchmark technology should remain a four-hour BESS, be extended in conjunction with the ESRDR to be a six- or eight-hour BESS, or revert to an OCGT, the Economic Regulation Authority will also need to include the environmental implications of any carbon emissions in accordance with the State Electricity Objective as part of its determination.

CEC members considered the commentary above around no change to the size of the benchmark technology ESR could also result in unintended consequences for the industry. That is, the one-year BRCP lag is essentially paying for a 4-hour ESR but requiring ESR providers to install and deliver a larger capacity ESR. As such, the BRCP should be either amended for the ESRDR, or the ESRDR should be determined prior to calculating the BRCP. To avoid the benchmark technology flip flopping between capacity years, several CEC members supported a future change to the Electricity System and Market Rules that removes any lag between the ESRDR, the benchmark reference technology, and the BRCP.

Furthermore, EPWA posited at the 1 May TDOWG meeting that it may be necessary to amend this methodology more frequently going forward, which has the potential to increase regulatory and investment uncertainty for new entrant ESR providers and again is only likely to benefit incumbent reserve capacity mechanism (RCM) providers to the detriment of increased volumes of energy storage on the SWIS.

The CEC notes the amended methodology set out in the Tranche 8 amending rules appears to be being pushed more quickly than usual to enable it to be used by AEMO to set the ESRDR for the 2025 ESOO due to be published in June 2025. From commentary by the Coordinator of Energy at the Western Australian Clean Energy Summit and EPWA at the May 1 TDOWG meeting there is an expectation among industry that the ESRDR will increase from the current 4 hours to 6-8 hours.

If a longer ESRDR is published in the 2025 ESOO and proponents are required to submit a certified reserve capacity (CRC) application by the closing date of 8 July 2025, this only leaves a two-week period between the release of the ESOO and submission of the CRC application. As the ESRDR is an important variable in determining an ESR providers CRC, the CEC is concerned that pushing through the Tranche 8 amending rules will result in insufficient time for ESR providers to finalise their CRC application in accordance with the revised ESRDR.

The ESRDR is also a key driver in determining the parameters of an ESR project, particularly the capital cost. Not knowing the ESRDR until late June makes it difficult to evaluate the financial viability of a project (and may impact any approvals such as the Development Application), this in turn has the potential to delay project financing and project development more generally. As such, the CEC and its members consider this has the potential to disincentivise the timely investment in energy storage resources in Western Australia and inflate costs for developers and the market more generally.

¹ The reference technology used to set the BRCP changed from a 160 MW OCGT that can run on diesel fuel (BRCP of \$230,000 per MW per year) to a 200 MW / 800 MWh BESS (BRCP of \$360,700 per MW per year) as part of the ERA's final review of the [2025 Benchmark Reserve Capacity Prices for the 2027/28 capacity year](#).

If the intent of the Tranche 8 amending rules is to signal to the market, there is sufficient four-hour duration BESS and no more is required, it achieves this goal. If the intent is to set out a robust enduring methodology that provides appropriate signals to the market of the need for longer duration storage, especially during a 1 in 10-year peak demand event, the proposed changes are unlikely to provide these signals. Particularly where the benchmark technology remains unchanged and the proposed methodology only derates the capacity of the storage resource and subsequently reduces the capacity revenue the BESS can earn. The CEC is concerned this reduction in revenue could result in the business case for storage not stacking up and therefore, this capacity not being installed in the SWIS.

Rather than rushing through the proposed amendments to the ESROD set out in the Tranche 8 amending rules, the CEC recommends EPWA set the value at 4 hours for inclusion in the 2025 ESOO and undertake a more fulsome review of the methodology to appropriately signal the need for long duration storage in the future.

Grandfathering arrangements

CEC members were supportive of the proposed increase in the grandfathering arrangements from five to 10 years to provide revenue certainty to those projects that received capacity credits in the 2024 capacity cycle. CEC members considered 10 years to be the minimum duration required to reach a final financial investment decision on a battery.

However, many CEC developer members suggested these grandfathering arrangements should be further extended to 15 years to better align with existing WEM market and investment processes. The rationale for this extension is set out as follows:

- In determining the BRCP, the capital cost is annualized over a 15-year period. The protection provided should align with the period over which the capital is annualized in the BRCP.
- The typical debt repayment period for an infrastructure project exceeds 10 years. Investment certainty is a key requirement of financiers and closer alignment of the period of protection, with the term of a debt facility acts to reduce uncertainty. While an increase in the protection to 10 years is a positive step, CEC members consider it does not go far enough in providing the certainty sought by financiers (banks and investors) and heightens the difficulty of securing finance for the development of new projects.
- With battery technology changing rapidly, associated capital costs reductions, and the ESRDR expected to increase in future, it is likely that by the end of the protection period, the revenue from the reserve capacity mechanism will be significantly reduced, thereby making recovery of the cost of capital difficult.
 - Requiring proponents to recover their fixed costs in the energy and/or essential system services (ESS) markets (as stated in slide 30 of the 1 May TDOWG meeting) is counter to what is used in determining the BRCP.
 - In addition, with large amounts of ESR coming into the market the ability to recover costs through energy trading and/or arbitrage and ESS is likely to be significantly impacted and unpredictable – particularly, given the WEM is not an energy only market design.

Given the uncertainty with the commentary noted by EPWA at the 1 May TDOWG meeting outlined above about the possibility of amending the methodology more frequently going forward, any reduction in the grandfathering arrangements below the 10 years provided in the Tranche 8 amending rules, risks introducing substantial revenue unpredictability for these projects.

In summary, while the CEC supports the proposed extension of the revenue protection arrangements from 5 to 10-years, our preference is for these arrangements to be further extended to 15 years to better align with the BRCP (revenue), and debt repayment processes.

Other proposed amendments

CEC members were supportive of other elements of the Tranche 8 amending rules, for example, the proposed changes to the RCS uplift payments where a registered facility is directed to synchronise by AEMO to provide a RoCoF control service as it will no longer negatively impact BESS charging in the middle of the day – helping to reduce minimum system load issues.

The CEC welcomes further engagement with the EPWA on subsequent matters related to this reform. Further queries can be directed to jeastcott@cleanenergycouncil.org.au.

Kind regards

Christiaan Zuur

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