



Energy Markets, Energy Policy WA

Level 1, 66 St Georges Terrace,
Perth, WA 6000

Lodged via email: energymarkets@demirs.wa.gov.au

RE: Tranche 8 Exposure Draft Proposed Electricity System and market Amending Rules

Neoen welcomes the opportunity to make a submission on Energy Policy WA's proposed changes to the Electricity System and Market (ESM) Rules (formerly the Wholesale Electricity Market (WEM) Rules).

Neoen is a specialist, independent power producer with a long-term vision to produce renewable, competitively priced energy on a large scale. With 8 GW in operation or under construction globally, we are aiming for more than 10 GW by 2025, with the ambition to reach 20 GW by 2030. In Western Australia our flagship asset, Collie Battery, has recently been commissioned and we have a pipeline of renewable generation and storage projects under development in the South West Interconnected System (SWIS).

As demand grows and we move away from thermal generation towards more renewable and inherently intermittent sources of energy, the SWIS will have a growing need for investment in a range of electricity capacity resources. This includes energy storage, which can provide firming and flexibility services in conjunction with intermittent renewable energy. Efficient and timely investment will be essential. This can only happen if the market has the right price signals.

This submission provides our views on the proposed amendments to address the immediate issues with the calculation of the availability requirements for storage in the Reserve Capacity Mechanism (RCM). It also provides our views on the need for further review of the obligations for storage over the long-term. Neoen is of the strong opinion that, beyond the proposed amending rules, wholesale changes to the allocation of capacity to storage are required to:

1. Ensure the technology mix in the SWIS is appropriate to meet the needs of consumers over the long-term.
1. Maximise the benefits to consumers of investment in energy storage not just at periods of peak demand, but across all time periods.

Feedback on the proposed amending rules

Neoen appreciates the need for changes to the method used to recover storage facilities' fixed costs under the RCM. We agree that the current method would result in an outcome that is impracticable and provides investment signals that are inconsistent with needs of the system. We understand that the proposed amended method would result in an outcome that better reflects the needs of the SWIS and the capability of existing storage facilities. We are therefore supportive of the changes proposed to be applied for the upcoming Reserve Capacity Cycle.

NEOEN AUSTRALIA PTY. LTD.

ACN 160 905 706

Level 21 – 570 George Street – NSW 2000 SYDNEY – Australia

To further improve the amended method, we recommend Energy Policy WA consider the following:

- **The ADG should be able to increase or decrease** – We consider there should be greater flexibility in the determination of the Availability Duration Gap (ADG). The current mechanism calculates residual demand with reference to the Minimum Electric Storage Resource Obligation Duration (ESROD), which itself is defined as the ESROD for the previous Reserve Capacity Cycle. This approach results in the ESROD only ever increasing. Changes in the SWIS such as a steepening of the demand curve or a reduction in storage capacity are conditions under which a reduction in the ADG is beneficial, but which cannot occur under the proposed design.

To allow for these scenarios, we recommend changing the calculation of the ADG to be the incremental increase from the starting point of **four hours**, rather than determining an increase from the previous year. This will re-baseline the ADG annually to ensure the calculation accounts for increases *and decreases*, while providing a floor of four hours.

- **The ADG calculations cannot be replicated to forecast potential future duration requirements based on currently available information** – The RCM is a material revenue stream for all facilities. It is critical for investors to be able to estimate potential revenues under the RCM. However, the proposed method does not allow this, as the process and calculations cannot be replicated with publicly available information. Specifically, the calculation of the Reference Day Demand Profile as part of proposed clause 4.5.9(b) involves a series of adjustments to observed demand from the Weather Reference Years. These adjustments are opaque, the source of some inputs is unclear, and the methodology subject to change without notice.

We recommend either the Australian Energy Market Operator (AEMO) publishes sufficient information for industry to be able to use confidently, or the method is amended to use a similar process to that used for the Relevant Level Method, which can be replicated based on available information.

- **Extending the grandfathering to 15 years** – We welcome the proposal to extend the period to maintain or ‘grandfather’ the ADG. However, we consider the 10-year period proposed is still inadequate. We recommend this is extended to 15 years, as this is consistent with:
 - The overall objective to limit costs to consumers (as explained in further detail below);
 - The increasing design and economic life of storage facilities (now 20-years plus);
 - The 15-year period over which costs are included when calculating the Benchmark Reserve Capacity Price (BRCP);
 - Supporting more contracting of storage capacity by retailers and large customers (as explained in further detail below); and
 - Providing greater investment certainty, particularly in the context of likely future changes to the ADG calculations (by Energy Policy WA’s own admission).

The ERA state in their 2024 Determination “small changes in the WACC can have a large effect on the BRCP”¹. We anticipate that extending grandfathering to 15-years for new entrants could therefore decrease the WACC assumed in the BRCP (due to the decrease in regulatory risk).

¹ <https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/benchmark-reserve-capacity-prices/2024-benchmark-reserve-capacity-price-to-apply-to-the-2026-27-capacity-year>

Applying the methodology used under the BRCP, increasing grandfathering to 15 years could reduce the BRCP by 10% or more.

Additionally, BESS owners would also be able to sell forward capacity up to 10 years after COD, this would allow retailers and large energy users to contract their IRCR at a fixed price, therefore enabling investment. This would increase competition and would help to facilitate the efficient entry of new competitors in market for the benefit of consumers.

Recommendations for further future consideration

Notwithstanding the current proposed short-term amendments, which we accept are an improvement on the current methodology, we recommend a deeper strategic review of the requirements for storage in the SWIS be conducted. Our primary concerns are that:

- The current methodology does not provide appropriate investment signals;
- The prospect of regular amendments to the methodology introduces too much uncertainty and is likely to dissuade rather than incentivise potential market entrants; and
- The current obligations on storage facilities are distorting market signals and likely increasing the cost of energy outside of peak times.

Changing the method used to determine the primary revenue stream for storage facilities in the SWIS affects investment risk. When developing our Collie Battery facility, we responded to the needs of the system and invested with an understanding of the expected investment return via the RCM. Should the assumptions on which investments are based materially change, as we expect they will with the proposed amendments to the ADG method, it will not only affect the viability of existing storage projects but also undermine confidence in future SWIS investments. We consider a more stable and enduring method of determining RCM revenue for storage facilities should be developed to prevent this type of administrative mechanism being required and relied on in the future.

As has been acknowledged by Energy Policy WA, the proposed amended methodology is not a one-time fix, and therefore does not provide a stable investment signal over the long-term. While we agree that the proposed amendments address the immediate problem (i.e. that without the changes we would have an unreasonable ADG of 15.5 hours), we are concerned this method will not continue to meet the requirements of the market over the medium- to long-term. On this basis, we recommend further consideration be given to alternative approach that better aligns the obligations for storage facilities under the RCM (a MW issue) and the optimal dispatch of storage facilities in real time (a MWh issue).

Specifically, we recommend consideration be given to:

- Potential changes in demand patterns that would be unable to be accommodated under the proposed amending rules such as multiple peaks or winter peaks, which AEMO forecasts could be as soon as 2029.
- Potential changes in the needs of the system such that RCM obligations as determined under the ADG no longer align with the required dispatch of storage facilities.
- The potential for the pace of change in the system and market being such that historical data is no longer a reasonable basis on which to determine future requirements.

- Alignment of the relevant processes and timeframes such that they provide a consistent investment signal. For example, aligning a change in reference technology to the calculation of the ADG, aligning the process for Early Certified Reserve Capacity (CRC) to the calculation of the ADG.
- Providing investment signals early enough in the project development process to allow them to inform investment decisions. In the current process, calculations such as the ADG are not published with sufficient time for investors to respond, other than to defer or cancel a project or CRC application.

Further, we consider that current RCM obligations applicable to storage, in particular the requirement that all storage facilities be fully charged at the start of a defined period (the ESROI period), are likely resulting in higher wholesale energy costs outside of these intervals for the following reasons:

- With a significant volume of storage capacity now seeking to charge during daylight hours, the cost of energy during these periods will inevitably increase on average.
- The need to be fully charged at the start of the ESROI period reduces the opportunity for storage to provide energy or essential system services during the day, reducing competition, facilitating dispatch of potentially higher cost supply options, and potentially driving investment in other energy sources when they're not actually needed.

On this basis we recommend storage facilities are provided with greater flexibility in when to charge and discharge, especially on days when peak demand is not expected to be high. This would result in lower average energy costs for the benefit of consumers. This could be achieved via several alternative mechanisms such as already apply to other facility types including demand side programs.

Other changes in Tranche 8

We note, and are supportive of, the other areas of reform addressed in the Tranche 8 package. Specifically, we consider the proposed changes to the allocation of costs associated with RoCoF Control Services essential to address the current outcome which is inconsistent with the causer-pays principle. We advocate for these changes to be progressed and implemented as soon as practicable.

Attachment A provides our feedback on a select number of issues we consider warrant further clarification or amendments.

Should you need further information or clarification on any aspect of our submission, please do not hesitate to contact us.

Regards,



Megan Ward

Megan.Ward@neoen.com

Head of Origination and Corporate Affairs

Neoen Australia

Attachment A: Additional comments on Tranche 8 Amendments

The following table provides our comments on selected proposed rule amendments, including those we consider warrant further clarification or amendments.

Issue	Comment
Application of grandfathering arrangements for a facility upgrade	Neoen seeks further information about the application of this proposed change. It is not clear how the proposed ADG grandfathering is intended to apply where a facility is upgraded (i.e. the existing facility vs the upgrade). We recommend Energy Policy WA clarifies the intent in the rules, and AEMO documents its proposed application including the definition of an upgrade to provide investors with certainty about the likely outcomes should they wish to expand an existing facility.
Increase in the Reserve Capacity Target to account for ESR grandfathering	Neoen supports the proposed changes to address any resulting inflation of the 'effective' capacity from grandfathered storage facilities should the ADG increase.
Extension of time for BRCP calculation	Neoen supports the concept of better aligning the calculation of the BRCP with the reference technology review, but suggests a further year lag in implementation of the ESROD requirement is warranted to achieve actual alignment, rather than merely reducing the lag.
Prioritising energy producing facilities in the NAQ	Neoen seeks further information about the application of this proposed change. It is not clear how AEMO is expected to implement this proposed amendment. This presents additional uncertainty for investors, particularly if the obligation applies as part of this year's process without any previous insight into whether and how it might apply. We recommend AEMO is required to provide details in a relevant procedure prior to its application.
RoCoF Control Service uplift cost allocation	Neoen supports this proposed amendment as it addresses a known issue with the rules. We recommend this change is expedited such that it is not likely to be held up by policy or implementation issues. This is particularly important as the misallocation of costs continues until the change is implemented. Neoen recommends Energy Policy WA considers whether there is a mechanism available for those incorrectly charged to retrospectively recover costs.