Department of Energy and Economic Diversification
GOVERNMENT OF WESTERN AUSTRALIA

Energy Policy WA

Rule Change Notice: Reserve Capacity Security Release once Reserve Capacity Obligations commence (RC_2026_01)

This Rule Change Notice is provided under clause 2.5.7 of the Electricity System and Market Rules (ESM Rules).

Submitter: Tesla Holdings Pty Ltd (Tesla)

Date submitted: 2 November 2026

The Rule Change Proposal

Under section 4.13 of the ESM Rules, if AEMO assigns Certified Reserve Capacity to a Facility, the relevant Market Participant must ensure that AEMO holds the benefit of a Reserve Capacity Security if:

- the Facility is a new Facility that is yet to enter service; and
- the Facility is an existing Facility that is yet to re-enter service following significant maintenance or a planned Facility upgrade.

The Reserve Capacity Security can be in the form of a guarantee, bank undertaking or security deposit. The required amount is 25 percent of the Peak Benchmark Reserve Capacity Price for the relevant Reserve Capacity Cycle multiplied by the Peak Certified Reserve Capacity of the Facility.

The purpose of Reserve Capacity Security is to compensate the market under clause 4.13.11 if the Facility or the Facility upgrade is assigned Capacity Credits Capacity but is not delivered.

The Reserve Capacity Security may be returned once the Facility has demonstrated it can meet the relevant requirements. For Facilities other than Demand Side Programmes[1], the ESM Rules currently provide two pathways for a Facility to demonstrate that it has met the relevant requirements for the Reserve Capacity Security to be returned:

1. at any time during the relevant Capacity Year, operating at a level equivalent to its Required Level, adjusted to 100 percent of its Peak Capacity Credits, in at least two Trading Intervals; or
2. after the end of the relevant Capacity Year:
    - by operating at a level at least equivalent to its Required Level, adjusted to 90 percent of the level of its Peak Capacity Credits, in at least two Trading Intervals before the end of the relevant Capacity Year, or
    - providing an independent expert report, which specifies that the Facility can operate at a level which is at least equivalent to its Required Level, adjusted to 90 percent of the level of its Peak Capacity Credits.

[1] Reserve Capacity Security for Demand Side Programmes with assigned Certified Reserve Capacity is covered under section 4.13A of the ESM Rules.

If the Market Participant has demonstrated that the Facility has met (1) above, the Market Participant may apply to AEMO for immediate release of its Reserve Capacity Security under clause 4.13.13.

Under clause 4.20.7, payments for Capacity Credits are made for the period in which the associated Reserve Capacity Obligations apply.

Market Participants with new Facilities or Facility Upgrades, which have early Reserve Capacity Obligations under clause 4.1.26 (applying between 1 June and 1 October of Year 3), are paid the Reserve Capacity Price applying during this period.

As Tesla notes in its Rule Change Proposal (RC_2026_01), Market Participants with new Facilities or Facility upgrades, which have early Reserve Capacity Obligations, currently have no ability to apply for early release of their Reserve Capacity Security. They must wait until 1 October of Year 3 of the relevant Reserve Capacity Cycle to demonstrate that the Facility or Facility upgrade has met 100 percent of its Required Level for the relevant Capacity Year (current clause 4.13.13).

Telsa contends that once a Facility is in Commercial Operation, has commenced its Reserve Capacity Obligations and has met its Required Level, any delivery risk has been resolved. Ongoing performance risk is then managed by the Reserve Capacity refund regime.

Tesla contends that the current treatment of Market Participants with a new Facility or a new Facility upgrade, which has early Reserve Capacity Obligations under clause 4.1.26, is inconsistent as they are unable to apply for release of their Reserve Capacity Security if they demonstrate that the Facility has met 100 percent of its Required Level.

Tesla contends that this has a significant opportunity cost for proponents, as they are unable to use these funds for debt servicing, business operations or investment in other projects.

Tesla's Rule Change Proposal (RC_2026_01) seeks to allow Market Participants with new Facilities or Facility upgrades with early Reserve Capacity Obligations to apply for early release of their Reserve Capacity Security once their early Reserve Capacity Obligations have commenced and they have demonstrated that the relevant Facility has met 100 percent of its Required Level to AEMO.

The Rule Change Proposal, which is attached to this notice, provides information about:

- the relevant ESM Rules and the proposed amendments to these; and
- Tesla's views of how the proposal will better address the State Electricity Objective.

Background of the Proposal Development

Market Participants may apply for a release of their Reserve Capacity Security under clause 4.13.13 if they can demonstrate that the relevant Facility has operated at a level equivalent to its Required Level, adjusted to 100 percent of its Peak Capacity Credits, in at least two Trading Intervals "during the relevant Capacity Year".

Under clause 4.1.26, if AEMO has determined that the Peak Reserve Capacity Requirement has not been met with Peak Capacity Credits assigned to Facilities, that were not required to provide Reserve Capacity Security and Demand Side Programmes in Commercial Operation,

Reserve Capacity Obligations for a new commissioned Facility can commence on 1 June of Year 3.

If the conditions for early commencement of Reserve Capacity Obligations under clause 4.1.26 have been met for a Reserve Capacity Cycle[2], new Facilities or upgrades assigned Capacity Credits for the relevant Capacity Year can, therefore, commence their Reserve Capacity Obligations and receive Capacity Credit payments, from as early as 1 June before the commencement of the relevant Capacity Year.

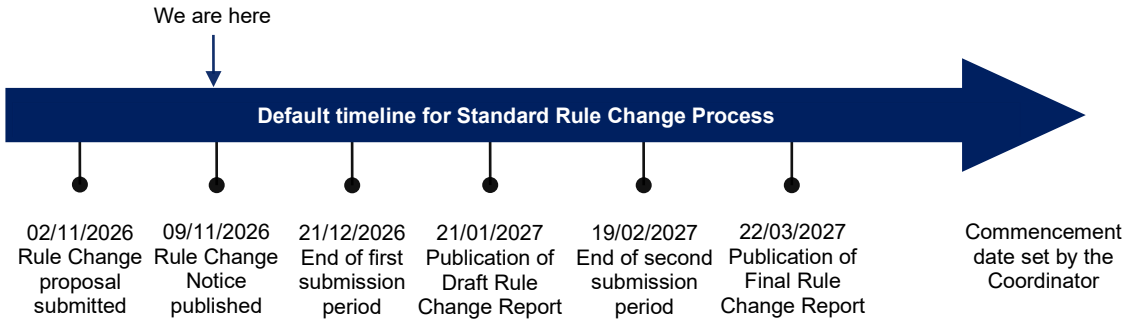
Under the current ESM Rules, a Facility that commences Reserve Capacity Obligations on 1 June of Year 3 of the Reserve Capacity Cycle must keep its Reserve Capacity Security in place for at least four months before it may apply for a release of its Reserve Capacity Security under clause 4.13.13.

Decision to Progress the Rule Change Proposal

Based on a preliminary assessment of the Rule Change Proposal, the Coordinator of Energy (Coordinator) has decided to progress it using the Standard Rule Change Process.

Timeline

RC_2026_01 will be progressed under the Standard Rule Change Process described in section 2.7 of the ESM Rules. The projected timeline for processing this proposal is:



Call for Submissions

The Coordinator invites interested stakeholders to make submissions on RC_2026_01.

The submission period is 30 Business Days from the Rule Change Notice publication date. Submissions must be received by the Coordinator by **5:00 pm (AWST) on 21 December 2026**.

The submission form is available at Rule Change Process (www.wa.gov.au)

Completed submissions forms should be send to energymarkets@deed.wa.gov.au.

[2] If AEMO has identified a shortfall under clause 4.20.17B(a), Reserve Capacity Obligations for a new Facility commence on 1 June of Year 3 (for Facilities commissioned by that date) or on the Facility's scheduled date of commissioning (for Facilities commissioned between 1 June and 1 October of Year 3) under clause 4.1.26(e)(ii)(4) of the ESM Rules.

ESM Rule Change Proposal Form

Rule Change Proposal ID: [to be completed by Energy Policy WA]

Date received: [to be completed by Energy Policy WA]

Change requested by:

Name:	Ben Tan, Managing Director
Phone:	0432 647 485
Email:	ben.tan@teslacorp.com.au
Organisation:	Tesla Holdings Pty Ltd (ABN 63 141 729 857)
Address:	Level 15, 2 The Esplanade, Perth WA 6000
Date Submitted:	29/10/2026
Proposed urgency:	High
Rule Change Proposal Title:	Release of Reserve Capacity Security once Reserve Capacity Obligations commence
ESM Rule(s) affected	Clauses 4.13.13 and 4.13.14

Introduction

Clause 2.5.1 of the Electricity System and Market Rules (ESM Rules) provides that any person may make a Rule Change Proposal by completing a Rule Change Proposal form and submitting it to the Coordinator of Energy (Coordinator).

This Rule Change Proposal can be sent by:

Email to: energymarkets@deed.wa.gov.au

Post to: Energy Policy WA, Attn: Director, Wholesale Markets, Level 1, 66 St Georges Terrace, Perth WA 6000; Locked Bag 100, East Perth WA 6892

The Coordinator will assess the proposal and will notify you within 5 Business Days of receiving this form whether the Rule Change Proposal will be further progressed.

All of the fields below must be completed for the proposal to be progressed, and the proposal must:

- provide any proposed specific changes to particular ESM Rules; and
- describe how the proposed rule change would allow the ESM Rules to better address the State Electricity Objective.

The State Electricity Objective is to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity in relation to:

(a) the quality, safety, security and reliability of supply of electricity; and

(b) the price of electricity; and

(c) the environment, including reducing greenhouse gas emissions.

Details of the Proposed Rule Change

1. Describe the concern with the existing ESM Rules that is to be addressed by the proposed rule change:

The current Reserve Capacity Security framework

Under clause 4.13.1, where AEMO assigns Certified Reserve Capacity to a Facility that is yet to enter service, the Market Participant must ensure AEMO holds the benefit of a Reserve Capacity Security. Under clause 4.13.2(a), the amount is 25 percent of the Peak Benchmark Reserve Capacity Price for the relevant Reserve Capacity Cycle multiplied by the Peak Certified Reserve Capacity of the Facility. For the 2025 Reserve Capacity Cycle (2027-28 Capacity Year), the Peak Benchmark Reserve Capacity Price is $360,700 per MW per year, so the security is $90,175 per MW of new capacity.

The ESM Rules (1 October 2026 version) provide only two pathways for that security to be returned:

1. **Return after the end of the Capacity Year (clause 4.13.10).** AEMO returns the security "as soon as practicable after the end of the relevant Capacity Year and in any event by 30 November of Year 4" where the Facility has operated at its Required Level, adjusted to 90 percent of its Peak Capacity Credits, in at least two Trading Intervals before the end of the Capacity Year (or provided a report under clause 4.13.10C) and is considered by AEMO to be in Commercial Operation.
2. **Early release on application (clauses 4.13.13 and 4.13.14).** A Market Participant may apply for release before the end of the Capacity Year, but only if the Facility has operated at its Required Level, adjusted to 100 percent of its Peak Capacity Credits, "in at least two Trading Intervals during the relevant Capacity Year" and is in Commercial Operation. AEMO then has 10 Business Days to determine whether the need to maintain the security has ceased.

Clause 4.28C.12A applies the same provisions to Facilities holding Early Certified Reserve Capacity.

Concern 1: security is held after the market has started paying for the capacity

Under clause 4.20.7, payments for Capacity Credits occur for the period in which the associated Reserve Capacity Obligations apply. Under clause 4.1.26(e)(ii), where AEMO has determined under clause 4.20.17B(a) that the Peak Reserve Capacity Requirement has not been met with the Peak Capacity Credits assigned to Facilities that were not required to provide Reserve Capacity Security and to Demand Side Programmes in Commercial Operation, Reserve Capacity Obligations for a new Facility commence on 1 June of Year 3 (for Facilities commissioned by that date) or on the Facility's scheduled date of commissioning (for Facilities commissioned between 1 June and 1 October of Year 3). Clause 4.29.5 then sets the capacity price for that pre-Capacity Year period.

This early commencement is live for the 2025 Reserve Capacity Cycle. In the 2025 WEM Electricity Statement of Opportunities (section 7.2.2), AEMO set the Peak Reserve Capacity Requirement for the 2025 Reserve Capacity Cycle at 6,238 MW against only 4,147 MW of capacity from existing Facilities, with a shortfall of 932 MW remaining even after 1,158 MW of committed new capacity. New Facilities assigned Capacity Credits for 2027-28 can therefore commence Reserve Capacity Obligations, and be paid, from as early as 1 June 2027.

From that point the Facility is treated by the market as delivering capacity: it is paid for its Capacity Credits, it is subject to the Reserve Capacity Obligations in section 4.12, it is exposed to capacity refunds under section 4.26, and it is subject to Reserve Capacity Testing under clause 4.25.1, which applies "during the period the Reserve Capacity Obligations apply". However, clause 4.13.13(a) only recognises operation "during the relevant Capacity Year", which does not start until 1 October of Year 3. A Facility that commences Reserve Capacity Obligations on 1 June must therefore keep its security in place for at least four months while being paid as a capacity provider, and, if it relies on clause 4.13.10, for up to 18 months (until 30 November of Year 4).

Concern 2: the security duplicates protections that already apply once obligations commence

The purpose of Reserve Capacity Security is to compensate the market under clause 4.13.11 if a certified Facility is not delivered. Once a Facility is in Commercial Operation, has commenced its Reserve Capacity Obligations and has demonstrated its Required Level, that delivery risk has been resolved. Ongoing performance risk is then managed by the capacity refund regime (under which, for any Trading Interval in which a Facility is not in Commercial Operation, the refund is calculated on the full number of its Capacity Credits under clause 4.26.1A(a)(ii)(2)), by Reserve Capacity Testing and the reduction of Capacity Credits under section 4.25, and by clause 4.12.3. Continuing to hold the security adds cost without adding protection.

Concern 3: the problem is the timing window, not the demonstration standard

The existing demonstration standard in clause 4.13.13(a), operation at 100 percent of the Required Level in at least two Trading Intervals, is consistent with clause 4.13.10 and is not the source of the concern. Technology-specific capability (for example, an Electric Storage Resource sustaining output over its Peak Electric Storage Resource Obligation Duration) is already verified separately under clause 4.25.2 once Reserve Capacity Obligations apply, with Capacity Credits reduced under section 4.25 if a Facility fails. This proposal therefore retains the existing two Trading Interval standard. It removes the requirement that the demonstration occur "during the relevant Capacity Year", so that operation before 1 October of Year 3 counts, and adds a requirement that Reserve Capacity Obligations apply to the Facility before its security can be released.

Effect

In practice, a bank guarantee provided as Reserve Capacity Security by a project company or new entrant is usually cash backed: the issuing bank requires an equal amount to be held on term deposit under a charge. The alternative under clause 4.13.5(b) is a cash Security Deposit with AEMO. Either way, $90,175 of cash per MW is locked up and cannot be used for construction, debt service or further projects, in addition to the guarantee fee. The current drafting imposes that cost for capacity that the market already recognises, and pays for, as functional. These costs are ultimately reflected in the cost of new capacity and borne by consumers.

2. Explain the reason for the degree of urgency:

Facilities assigned Capacity Credits in the 2025 Reserve Capacity Cycle may commence Reserve Capacity Obligations from 1 June 2027 under clause 4.1.26(e)(ii)(4), or from their scheduled date of commissioning between 1 June 2027 and 1 October 2027 under clause

4.1.26(e)(ii)(5), given the shortfall identified by AEMO for 2027-28. For the amendment to benefit those Facilities, and the corresponding Facilities in the 2026 Reserve Capacity Cycle, it would need to commence before 1 June 2027.

The proposal is narrow. It does not change the amount of Reserve Capacity Security, the demonstration standard, the obligations of a Facility, the refund regime or Reserve Capacity Testing. It only removes the restriction on when the existing demonstration can be made, requires Reserve Capacity Obligations to apply before release, and clarifies the matters AEMO must determine on an application. Tesla Holdings therefore requests that the proposal be progressed with priority, and considers it suitable for an accelerated Standard Rule Change Process.

3. Provide any proposed specific changes to particular ESM Rules:

Drafting is shown against the ESM Rules (1 October 2026). Deleted words are shown in ~~strikethrough~~ and added words are underlined. The gazetted Tranche 9 and Tranche 10 amending rules that have not yet commenced do not amend these clauses.

4.13.13. A Market Participant may apply to AEMO for the release of any Reserve Capacity Security held by AEMO, at any time prior to the end of the relevant Capacity Year, if the Reserve Capacity Security relates to a Facility that:

(a) is a Facility for which the Reserve Capacity Obligations apply in accordance with clause 4.1.26;

~~(a)~~ (aA) has operated at a level equivalent to its Required Level, adjusted to 100 percent of the level of Peak Capacity Credits specified in clause 4.20.5A, in at least two Trading Intervals ~~during the relevant Capacity Year~~; and

(b) is considered by AEMO to be in Commercial Operation.

4.13.14 If AEMO receives an application made under clause 4.13.13 or clause 4.28C.12 it must, within 10 Business Days:

(a) determine whether the need to maintain the Reserve Capacity Security has ceased and whether AEMO is satisfied that the Facility meets the requirements of clause 4.13.13, or a reduced amount of Reserve Capacity Security is required in accordance with clause 4.28C.12(b);

(b) notify the Market Participant of its determination;

(c) if the Reserve Capacity Security is a Security Deposit that is no longer required to be held, return the Security Deposit (plus interest earned); and

(d) if the Reserve Capacity Security is not a Security Deposit and is no longer required to be held, notify the Security Provider that AEMO relinquishes any rights to draw on the Reserve Capacity Security.

Notes on the drafting

- The demonstration standard (100 percent of the Required Level in at least two Trading Intervals) is unchanged. The words "during the relevant Capacity Year" are removed, so the demonstration may be met at any time, including before 1 October of Year 3. New paragraph (a) ensures that security can only be released once Reserve Capacity Obligations apply to the Facility under clause 4.1.26.

- Amended clause 4.13.14(a) requires AEMO to determine whether the Facility meets the requirements of clause 4.13.13 and, for an application under clause 4.28C.12, whether a reduced amount of Reserve Capacity Security is required under clause 4.28C.12(b).
- Clause 4.13.10 (return after the end of the Capacity Year) and clause 4.13.11 (compensation for failure to operate) are unchanged. A Facility released under amended clause 4.13.13 will have operated at 100 percent of its Required Level in at least two Trading Intervals before the end of the Capacity Year and be in Commercial Operation, so it necessarily satisfies clause 4.13.10(a) and (b) and no clause 4.13.11 liability can arise.
- Clause 4.13.1C already provides that a Facility includes part of a Facility for the purposes of section 4.13, so a staged Facility can apply for release of the security for each stage as that stage satisfies clause 4.13.13.
- Through clause 4.28C.12A, the amendment applies equally to Facilities with Early Certified Reserve Capacity.
- No transitional provision is proposed. The amended clause would apply to any application made after commencement, including for Reserve Capacity Security held for the 2025 and 2026 Reserve Capacity Cycles.
- AEMO may need to make consequential changes to the WEM Procedure made under clause 4.13.8.

4. Describe how the proposed rule change would allow the ESM Rules to better address the State Electricity Objective:

Efficient investment. Reserve Capacity Security is a cost of entry for new capacity, and because guarantees are typically cash backed it locks up project capital at the point in the project when cash is scarcest. Releasing it once the capacity is delivering, is being paid for and has demonstrated its Required Level lowers the cost of new investment, particularly for independent and smaller proponents, without any reduction in the protection that the security provides against non-delivery.

Efficient operation and use. The proposal links release to the same events the ESM Rules already use to recognise a Facility as a capacity provider (commencement of Reserve Capacity Obligations under clause 4.1.26 and payment under clause 4.20.7). This removes an inconsistency between section 4.13 and the rest of Chapter 4, under which a Facility can be paid as a capacity provider while being unable to demonstrate that it is one for the purpose of releasing its security.

Reliability and security of supply. The early commencement of Reserve Capacity Obligations under clause 4.1.26(e)(ii) exists to bring new capacity into service before the summer peak when existing capacity is insufficient, as AEMO has identified for 2027-28. Allowing security to be released from that point strengthens the incentive to commission early. Reliability is not diminished because security is held until the Facility is in Commercial Operation, has commenced Reserve Capacity Obligations and has met the existing demonstration standard, and all post-commissioning performance obligations, refunds and Reserve Capacity Testing continue to apply.

Price of electricity. Financing costs on locked-up cash and guarantee fees incurred by new entrants are ultimately recovered from the market. Reducing an unnecessary holding period reduces those costs, which is in the long-term interests of consumers.

Environment. Much of the new capacity being certified in the SWIS is storage that supports the integration of renewable generation and the retirement of emissions-intensive plant. Lowering the cost of bringing that capacity into service early supports the emissions reduction limb of the objective.

5. Provide any identifiable costs and benefits of the change:

Benefits

Reserve Capacity Security for the 2025 Reserve Capacity Cycle is $90,175 per MW (25 percent of the $360,700 per MW per year Peak Benchmark Reserve Capacity Price). Where the guarantee is cash backed, or provided as a Security Deposit, the cost of holding it is the guarantee fee plus the opportunity cost of the locked-up cash (the proponent's cost of capital less the interest earned on the deposit). Table 1 sets out an illustrative range.

Table 1: Illustrative carrying cost of Reserve Capacity Security (2025 Reserve Capacity Cycle)

Case	Net carrying cost (% p.a.)	Per MW per year	Per 100 MW per year	Per 100 MW, 4 months	Per 100 MW, 18 months
Low	4.5%	$4,058	$405,788	$135,262	$608,681
Mid	7.5%	$6,763	$676,313	$225,438	$1,014,469
High	11.0%	$9,919	$991,925	$330,642	$1,487,888

Assumptions: cash backing of 100 percent of the guarantee; cost of capital 8, 10 and 12 percent per annum; term deposit or AEMO Deposit Rate interest 4.5, 4.0 and 3.5 percent per annum; bank guarantee fee 1.0, 1.5 and 2.5 percent per annum (no fee applies to a Security Deposit held by AEMO, which reduces the figures by that amount). Figures are illustrative and rounded; actual costs vary by proponent.

- For a Facility commencing Reserve Capacity Obligations on 1 June of Year 3, the proposal would allow release about four months earlier than clause 4.13.13 currently allows (after 1 October of Year 3), and up to 18 months earlier than clause 4.13.10 (by 30 November of Year 4).
- At the mid case, this is a saving of about $225,000 (four months) to $1.0 million (18 months) for every 100 MW of new capacity, or about $6.8 million per year of carrying cost for every 1,000 MW of new capacity, which ties up about $90.2 million of cash.
- The released cash can be redeployed into construction, debt reduction or further capacity, which supports the new investment AEMO has identified as required from 2027-28.
- The proposal uses the existing demonstration standard, so it introduces no new testing requirement for Market Participants or AEMO.

Costs and risks

- AEMO: minor changes to its assessment of release applications and to the WEM Procedure under clause 4.13.8. No settlement or system changes are expected because the amount of security, the demonstration standard, the refund regime and the testing regime are unchanged.
- Market Participants: none. Release remains optional and on application.
- Risk to the market: negligible. Security is released only after the Facility is in Commercial Operation, Reserve Capacity Obligations apply to it and it has operated at 100 percent of its Required Level in at least two Trading Intervals. At that point the clause 4.13.11 compensation event cannot occur, and ongoing performance is governed by sections 4.12, 4.25 and 4.26. The incentives for a Facility that commences early and then fails are analysed below.

Incentives where a Facility commences early and then fails

The Market Advisory Committee asked whether a Facility that commences Reserve Capacity Obligations early (for example on 1 June of Year 3) and then fails shortly afterwards (for example on 2 June) could exhaust its capacity refund exposure for the year, and so lose the incentive to return to service as quickly as possible. Tesla Holdings has analysed this against the ESM Rules (1 October 2026) and considers that the incentive to return to service remains strong, for the reasons below.

1. The pre-1 October period sits in the previous Capacity Year, with its own refund cap. A Capacity Year runs from 1 October to 1 October. Payments for a Facility whose Reserve Capacity Obligations commence on 1 June of Year 3 are made from that date at the price set by clause 4.29.5 (the Floating Daily Peak Reserve Capacity Price for the Capacity Year that ends on 1 October of Year 3). Under clause 4.26.1A(b), the Facility Reserve Capacity Deficit Refund is capped at the Maximum Facility Refund "in the relevant Capacity Year", less refunds already applied "in previous Trading Intervals falling in the same Capacity Year". For a Facility that is not a Demand Side Programme, the Maximum Facility Refund is one times the Capacity Credit payments for that Capacity Year (Glossary: Facility Maximum Peak Refund Factor and Maximum Facility Refund). A failure on 2 June can therefore cost the Facility, at most, the payments it receives between 1 June and 30 September. It cannot use up any of the refund cap for the Capacity Year starting on 1 October, which starts again at zero against a full year of payments.

2. Every day out of service costs at least that day's capacity payment. Under clause 4.26.1, the refund for each Trading Interval is the refund factor multiplied by the per Trading Interval capacity price, and the refund factor is the lesser of six and the greater of the dynamic refund factor and the minimum refund factor. The minimum refund factor in clause 4.26.1(f) is 1 minus 0.75 times the share of the Facility's capacity that has not been on Forced Outage over the previous 4,320 Trading Intervals (90 days). For a Facility on sustained Forced Outage that share falls towards zero, so the minimum refund factor rises towards one. Each day out of service therefore costs at least about one day of capacity payments. When system spare capacity is low, the dynamic refund factor in clause 4.26.1(d) rises above one, reaching the maximum of six when spare capacity is 750 MW or less. Each day the Facility returns earlier saves at least that day's payment, and up to six times it during tight conditions.

3. The annual cap cannot realistically be exhausted before the Hot Season. With the cap equal to one year of payments, a Facility out of service from 1 October would reach the cap only after about 365 days at an average refund factor of one, 182 days at an average of two, or 122 days at an average of three. Reaching the cap by 1 December would require the maximum refund factor of six in every Trading Interval from 1 October, which would mean spare capacity at or below 750 MW throughout October and November. Table 2 shows the position for an illustrative 100 MW Facility.

Table 2: Illustrative refund exposure for a 100 MW Facility that commences on 1 June 2027 and fails on 2 June 2027

Return to service	Average refund factor	Early period (1 June to 30 September 2027)	Refunds in 2027-28	Net 2027-28 capacity revenue still earned
1 October 2027	n/a	Up to about $7.22 million refunded	$0	$36.07 million
1 November 2027	1 / 2	Up to about $7.22 million refunded	$3.06 million / $6.13 million	$33.01 million / $29.94 million

Return to service	Average refund factor	Early period (1 June to 30 September 2027)	Refunds in 2027-28	Net 2027-28 capacity revenue still earned
1 December 2027	1 / 2	Up to about $7.22 million refunded	$6.03 million / $12.06 million	$30.04 million / $24.01 million
1 January 2028	1 / 2	Up to about $7.22 million refunded	$9.09 million / $18.18 million	$26.98 million / $17.89 million
1 March 2028	1 / 2	Up to about $7.22 million refunded	$15.02 million / $30.04 million	$21.05 million / $6.03 million

Assumptions: new Facility assigned 100 Peak Capacity Credits in the 2025 Reserve Capacity Cycle; 2027-28 Peak Reserve Capacity Price of $360,700 per MW per year ($36.07 million for the year, about $98,800 per day); early period paid at the 2026-27 Peak Reserve Capacity Price of $216,092 per MW per year (about $59,200 per day, or about $7.22 million for the 122 days to 30 September 2027) as a proxy for the Floating Daily Peak Reserve Capacity Price under clause 4.29.5; the Facility is fully on Forced Outage until the return date and performs fully afterwards; daily values are annual values divided by 365. Figures are rounded and illustrative.

Even on the pessimistic assumption of an average refund factor of two, a 100 MW Facility that returns by 1 December 2027 still has about $24.0 million of its $36.1 million annual capacity revenue to protect, and every further day out costs it at least about $98,800. The incentive to return before the Hot Season is therefore strong.

4. Early commencement does not weaken the incentive to repair; it strengthens it. A Facility that commences on 1 October and then fails has its total refund exposure for the year limited to one times its annual Capacity Credit payments ($36.07 million for a 100 MW Facility). A Facility that commences early does not have that single limit. If it fails in June and returns late, it can refund all of its early-period payments (about $7.22 million) under the cap for the earlier Capacity Year and then up to a further full year of payments ($36.07 million) under the cap for the Capacity Year starting on 1 October. Its total exposure is therefore about $43.29 million, or about 1.2 times its annual payments. The early-commencing Facility has more to lose from a slow repair than a Facility that commences on 1 October, so early commencement cannot reduce its incentive to return to service.

5. Further consequences are not capped by the annual refund limit. A Facility that stays out of service also faces:

- a higher minimum refund factor for 90 days after it returns, because the Forced Outage history in clause 4.26.1(f) carries forward, which raises its exposure through the Hot Season;
- a lower Peak Certified Reserve Capacity in future Reserve Capacity Cycles if its Forced Outage rate over the preceding 36 months exceeds the Forced Outage Threshold (clause 4.11.1A);
- a reduction in its Capacity Credits for the rest of the Capacity Year if it fails a Reserve Capacity Test and the re-test (clause 4.25.4);
- lost energy and Essential System Services revenue; and
- financing consequences. New capacity is typically project financed, with debt sized on contracted or expected capacity revenue. An extended outage puts debt service cover ratios, distribution lock-ups and default provisions at risk, so owners and lenders will require the Facility to be restored as quickly as possible regardless of the refund cap.

6. The concern does not arise from this proposal. The refund caps and the early commencement of Reserve Capacity Obligations are existing features of clauses 4.1.26 and 4.26, and this proposal does not change them. The Reserve Capacity Security also does not provide an incentive to return to service after an early failure under the current ESM Rules. A

Facility that operated at 90 percent of its Required Level in two Trading Intervals on 1 June and is in Commercial Operation already meets clause 4.13.10(a) and (b), so its security must be returned by 30 November of Year 4 and no clause 4.13.11 compensation can arise, even if it fails on 2 June. The only effect of the current drafting is on the timing of release. For a 100 MW Facility, that timing difference is worth about $733,000 (about $9.02 million of security held for about 13 months at the 7.5 percent mid-case carrying cost in Table 1), which is roughly one week of refunds at a refund factor of one. It is small relative to the refund, revenue and financing consequences described above.