



31 August 2023

Capacity Investment Scheme Team
Department of Climate Change, Energy, the Environment and Water

Submitted through Consultation Hub

Dear Sir/Madam

**Stanwell Corporation Limited Response to the Department of Climate Change,
Energy, the Environment and Water's public consultation paper – Capacity
Investment Scheme**

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Department of Climate Change, Energy, the Environment and Water's (DCCEEW) *Public Consultation Paper – Capacity Investment Scheme* (the Scheme).

Stanwell is a major provider of electricity to Queensland, the National Electricity Market (NEM) and large energy users throughout Australia. We own and operate two coal-fired power stations, providing reliable and affordable energy, with a pipeline of renewable generation and storage technologies to reduce our emissions intensity and create future opportunities for our people and communities. In addition, Stanwell's retail business, Stanwell Energy, services the ongoing energy requirements of some of Australia's biggest industrial and commercial customers along the eastern seaboard of Australia.

This submission contains the views of Stanwell in relation to the Consultation Paper and should not be construed as being indicative or representative of Queensland Government policy.

Australia's ongoing energy transformation is being driven by a series of national and jurisdictional government energy targets, including commitments by:

- the Australian Government (the Government) to reach 82 per cent renewable energy in the on-grid electricity sector by 2030;¹ and
- the Queensland Government for 80 per cent of the state's electricity needs to be provided from renewable energy sources by 2035.²

To successfully meet these commitments, an extraordinary amount of infrastructure will need to be deployed over a relatively short period of time with many challenges to work through.

¹ Department of Climate Change, Energy, the Environment and Water 2022, [Annual Climate Change Statement 2022](#), p. 32.

² Queensland Government 2022, [Queensland Energy and Jobs Plan](#), p. 6.

The Scheme, with key principles endorsed by Commonwealth, state and territory ministers, seeks to encourage new investment in clean dispatchable capacity to support reliability and reduce market volatility.³ For competitively selected projects, this is to be achieved for through an underwriting agreement with the Government that reduces the risk to investors.

Stanwell believes that, in a first-best world, the Scheme should be consistent with the National Energy Objectives, and:

- facilitate the timely addition of necessary firming infrastructure;
- enable asset owners to meet their operating costs and debt finance obligations while retaining a reasonable chance of a commercial return on their investment;
- avoid the creation of a financial burden for future taxpayers; and
- preserve the functioning of the national energy market.

Inevitably however, conflict in the delivery of these outcomes will arise and accommodating trade-offs need to be made. Stanwell considers that a simple Scheme, rather than more a complex one, will likely yield greater benefits in these circumstances, particularly in the early years of the Scheme's operation.

Jurisdictional consultation

DCCEEW has indicated that the Scheme will be supported by bespoke modelling, drawing heavily on the Integrated System Plan (ISP) and Electricity Statement of Opportunities (ESOO), to identify future reliability gaps and set annual tender targets across the NEM. While these reports are based on key underlying assumptions, it is imperative that the Commonwealth consults closely with the jurisdictions and the Australian Energy Market Operator (AEMO) as a practical cross-check on those assumptions, to ensure that state and territory planning is effectively accounted for.

In particular, the Scheme's reliability assessment and views on the optimal infrastructure pathway should be informed by and, to the greatest extent possible be consistent with, jurisdictional energy policies and schemes, such as the *Queensland Energy and Jobs Plan*.

Underwriting Instrument

The proposed revenue underwriting design instrument seeks to prudently balance the financial exposure of project proponents and the Government arising from participation in the Scheme. When revenue falls short of an agreed benchmark, the Government will provide financial support to help asset owners meet their operating costs and debt finance obligations. Alternatively, asset owners are obliged to return a proportion of their profits to the Government whenever revenue exceeds an agreed level.

However, Stanwell is concerned that this floor and ceiling framework as outlined in the Consultation Paper may fail to provide sufficient incentives to bring forward the level of

³ Department of Climate Change, Energy, the Environment and Water 2023, [Capacity Investment Scheme: Public Consultation Paper](#), p.6.

investment envisaged. It may also have adverse implications for the competitiveness of tendering and efficiency of costs.

In particular, the presence of an “always on” revenue ceiling may lead proponents to require a higher revenue floor than a scheme with no cap or a cap which only acts to recover previous support payments (as is seen in the NSW scheme). Similarly, the proposal for the Government to capture the vast majority of upside during potentially short-term events may discourage Scheme participation by constraining prospective cashflows from an investment and limit a proponent’s ability to realise a commercial rate of return over the life of a project.

Accordingly, Stanwell is of the view that the adoption of a floor-only design instrument which doesn’t unnecessarily limit the upside financial benefits to projects, would enhance investment incentives considerably.

However, if DCCEEW decides that the floor and ceiling framework is to be retained, revenue sharing percentages should strike an appropriate balance between risk and return. In principle, investment would be encouraged if proponents were able to retain a relatively large share of revenue above the ceiling, while being afforded a commensurately high level of financial support when revenue falls below the floor.

Moreover, Stanwell is of the view that any financial obligation on an asset owner’s part should be directly linked to the support previously received from the Scheme. In other words, a project’s exposure to revenue sharing at the ceiling should be limited to the financial support received previously from the floor.

Performance Requirements

Stanwell understands that DCCEEW intends for the Scheme to impose minimal operational requirements on successful projects so as to preserve normal commercial incentives. It has foreshadowed a 97 per cent availability minimum and an obligation to bid 50 per cent of the project capacity in an LOR3 event that has been forecast by AEMO more than two hours ahead.⁴

In principle, Stanwell supports the imposition of performance requirements as long as they are efficient, set out transparently in tender documentation upfront, and agreed in any underwriting contract. If a project receives a benefit for the purpose of providing capacity, it should make that capacity available accordingly. Commercial incentives could be expected to drive participation in the market to the greatest extent possible.

However, Stanwell believes that the proposed performance requirements may result in unintended consequences.

Firstly, the LOR3 obligation may create a perverse incentive for the operation of batteries. In particular, a risk-averse asset manager may be inclined to systematically maintain a storage level at or near 50 per cent, given the potential penalty for being unable to meet the capacity

⁴ Department of Climate Change, Energy, the Environment and Water 2023, [Capacity Investment Scheme: Public Consultation Paper](#), p.23.

obligation at short notice. To the extent that profitable trading opportunities are intentionally disregarded, and energy remains stored, inefficient practices will limit the revenue potential of batteries, discouraging investment and Scheme participation. It may also put the asset manager in breach of the 97 per cent availability obligation.

Alternatively, if capacity is not held back, the asset manager may possibly breach its LOR3 obligation at the commencement of the two-hour notification window. Should the asset manager elect to recharge the battery in order to restore its storage charge level of 50 per cent or more within that window, it may inadvertently bring forward the LOR3 by creating additional load in what would likely be an LOR2 period.

Stanwell believes that the trade-off between asset utilisation and system availability should be rebalanced, in recognition of the infrequent historic incidence of LOR3 events forecast two hours ahead. In particular, to encourage more efficient asset utilisation, the operating requirement should not specify a level of storage charge, but rather preclude a battery from discharging in a manner that would reduce availability during a future LOR3 event once that event has been notified. Any financial impact arising from this restriction would be reflected in net revenues.

Availability of Information

For the Scheme to efficiently and effectively deliver on its objectives, the market needs to receive relevant information in a timely manner. Key details in terms of Scheme arrangements will assist potential tenderers evaluate the merits of participation, plan and prepare bids. This includes:

- overarching guidance on the governance arrangements for the Scheme;
- detailed tender guidelines, setting out eligibility for participation, content requirements of bids, and the basis upon which those bids will be evaluated; and
- a forward plan for tender timings, auction targets and allocations across jurisdictions.

The market would also benefit from information on the performance of projects in receipt of long-term financial support. This may include:

- the physical delivery of infrastructure against promised construction milestones;
- the number of ceiling and floor strikes; and
- the annual cost of financial support, on an aggregated basis.

Need for an Extended Scheme

Given the extent of the energy transition envisaged, it is appropriate consideration be given to the medium and long-term requirements of the energy market beyond 2030 as soon as possible. New dispatchable capacity supported by the Scheme between 2023 and 2027 represents the 'low hanging fruit' of the transition and additional support will be needed to facilitate investment in further dispatchable capacity beyond the life of the Scheme.

Accordingly, Stanwell believes that the scheme for the 2023-2027 auctions should be committed without a view to facilitating changes over the long-term, while Energy Ministers should quickly commit to the development of an extension or second phase of the Scheme. This could accommodate a range of firming technologies and durations, particularly long-term storage provided by pumped hydro projects which have longer construction lead-times and are unable to deliver on the existing tender timeframes.

Committing to a clear, fixed design for the initially-foreshadowed four-year tender period would provide the market with greater certainty upfront. This would be of particular benefit for proponents planning to bid in auctions during 2026 and 2027 but who may need to make development commitments prior to that time in order to meet the proposed construction timeframes. Key learnings from this initial phase could then be incorporated with the subsequent phase, enabling the Scheme to evolve, providing greater flexibility and potential opportunities for a broader range of projects.

Tender Administration

The role of the entity administering the competitive tender process will be important in providing the market with confidence in the integrity of that process. To this end, the tendering conduct should be fair and transparent to all participants, promoting competition amongst bidders, and encouraging bids from parties who are not already in possession of a long-term Commonwealth underwriting agreement. It also needs to minimise the costs of Scheme participation.

Stanwell considers that AEMO Services is well-placed to deliver this. AEMO Services is an independent subsidiary of AEMO, and was established to carry out functions as assigned by the NEM jurisdictions. In this context, it is at arm's length to the market operator and has proven itself in the role of Consumer Trustee in the implementation of the NSW Electricity Infrastructure Roadmap. Moreover, the experience gained from running 2023 tenders for the Scheme in Victoria and South Australia can be effectively leveraged for future Scheme tenders.

Conclusion

Stanwell supports the development of the Scheme which seeks to facilitate the entry of new renewable generation and storage infrastructure as part of a rapidly changing energy market. However, the Scheme remains only a partial solution to the energy transformation and will need to complement the overall national energy policy reform framework which ensures the adequacy of market settings and encourages the retention of legacy capacity until such time it is not needed.

Stanwell would welcome the opportunity to discuss this submission further. If DCCEEW has any questions, please refer them to Steve Williams, Market Regulations Senior Advisor, on 0409870998, or email at Stephen.Williams@stanwell.com.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'I. Chapman', with a long horizontal flourish extending to the right.

Ian Chapman
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