



Australian Government

Department of Climate Change, Energy,
the Environment and Water

Frequently Asked Questions Tender 1 Market Brief

CIS National Electricity Market Generation



Disclaimer

The Commonwealth of Australia, as represented by the Department of Climate Change, Energy, the Environment and Water, has produced this publication to provide high-level and initial guidance on the Capacity Investment Scheme (CIS) previously contained in the CIS Tender 1 Market Brief. Projects wishing to participate in this tender should read the CIS Tender 1 Guidelines that have been published on the AEMO Services website (<https://aemoservices.com.au/tenders/cis-tender-1-generation-nem>). This publication does not indicate commitment by the Australian Government to a particular course of action in relation to the CIS or otherwise. The CIS Tender Guidelines should be read carefully and take precedence over anything in these FAQs.

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Frequently Asked Questions

Contract design

1. How will the CIS maintain commercial incentives in the electricity market?

The CIS aims to preserve existing electricity market signals. This includes preserving a level of market price exposure in the underwriting settings for the CISA and allowing projects to participate in wholesale contract markets.

In contract years when the net operational revenue for the project is between the Annual Revenue Floor (bid annual floor (\$/MWh) multiplied by eligible generation (MWh)) and the Annual Revenue Ceiling (bid annual ceiling (\$/MWh) multiplied by eligible generation (MWh)), projects have full market price exposure. Any additional revenue which the project can achieve is retained by the project. Projects have strong incentives to enter wholesale market contracts if the expected revenue from the contract is greater than the expected revenue from the wholesale market.

In contract years when net operational revenue is greater than the Annual Revenue Ceiling, the CISA will require 50% of the net operational revenue above the ceiling to be paid to the Australian Government. Projects retain 50% of the marginal revenue benefit and hence are still incentivised to enter wholesale market contracts. Incentives to contract under these circumstances are reinforced by the fact that payment to the Australian Government is also capped by the project's annual payment cap which is a biddable parameter. Double liabilities are avoided by including net eligible contract revenue in the eligible revenue calculations.

For contract years when net operational revenue is below the Annual Revenue Floor, the CISA will provide a top up of 90% of the revenue difference between the Annual Revenue Floor and the net operational revenue. When below the Annual Revenue Floor, projects remain exposed to 10% of the marginal revenue benefit. This mutes incentive for contracting purely on increased revenue per unit of dispatch. Incentives to contract under these circumstances are improved by the fact that payment from the Australian Government is also capped by an annual payment cap which is a biddable parameter. As noted below, projects retain negative price risk with prices below zero deemed at zero for net operational revenue calculations. This mitigates the risk of uneconomic dispatch of generation. Projects retain incentives to enter wholesale contracts to manage negative price risk.

2. What is included in the Net Operational Revenue calculation?

The Generation CISA will provide revenue underwriting for the eligible generation sent out by the project (in MWh, adjusted for Marginal Loss Factors and Distribution Loss Factors). Wholesale market revenue for periods when spot prices are positive will be included in the revenue calculation however dispatch at negative prices (below \$0/MWh) will be deemed at \$0/MWh for the net operational revenue calculations.

The net operational revenue calculation is intended to include all sources of revenue that relate to the economic value of the project, including potential future sources of revenue. Other revenue sources to be included in the net operational revenue calculation include (without limitation):

- Eligible Wholesale Contracts.
- Green Products and Capacity Products.
- Any other revenue contract that relates to the economic value of the project.

When any contracted revenues are assessed as ineligible, they will be replaced by the revenue the project would have made based on spot market sales if it had not entered the ineligible contract.

Green and capacity products whose value is not realised are proposed to be deemed at the market price for each product that is created or referred to the project over the support year.

Where net operational revenue divided by eligible generation is less than the project's annual revenue floor, the CISA will provide a top-up payment of 90% of the difference multiplied by eligible generation. Where net operational revenue divided by eligible generation is greater than the project's annual revenue ceiling, the project will be required to provide a payment equal to 50% of the difference multiplied by eligible generation.

3. What are Eligible Wholesale Contracts and how are these treated under the Generation CISA?

The CIS aims to encourage proponents to participate in the contracts market. However, there are some limitations on the type of contracts (Eligible Wholesale Contracts) that can be included in the CISA revenue calculation. These limitations are necessary to manage the verifiability of arm's length arrangements, and to avoid onerous administrative requirements for both proponents and scheme administration.

Eligible Wholesale Contracts must:

- be at an arm's length price
- not be with a related party (further discussed in Question 4)
- have fixed-for floating price structure (swap)
- have a generation-following profile
- be for a duration that is a multiple of 12-months
- not contain embedded optionality on the volume or price or the exercise of the contract itself
- require project Operator to sell, and not buy-back, any physical or notional quantity of electricity.

During the term of the CISA, projects may seek to sign contracts that have features that have not been included in this definition of Eligible Wholesale Contracts. However, the Australian Government reserves the right to consider and approve alternative types of contracts (on a case-by-case basis) to ensure they align with CIS policy objectives.

Note: the Eligible Wholesale Contract provisions discussed here refer to the Generation CISA product only and are not exhaustive. The Clean Dispatchable CISA will have a separate definition for Eligible Wholesale Contracts.

4. What are related party transactions and are they eligible?

A related party transaction is defined as any generation transaction with a related body corporate as defined in the *Corporations Act 2001* (Cth).

Related party transactions will be allowed. However, these will not be reflected in the revenue calculation for the project. The revenue calculation will use the wholesale spot market to calculate project revenue, without considering the impact of any related party transactions.

This will allow flexibility for different business models, while recognising that it would be highly onerous to monitor whether related party transactions are genuinely arm's length and therefore avoid the risk, or the perception, that revenues may be transferred to related parties to the detriment of taxpayers.

It is recognised that if the business model for a project features the inclusion of the value of its generation as part of a portfolio trading strategy, this will mean that the risk of 50% revenue 'clawback' above the contracted ceiling will need to be managed. The Australian Government recognises that proponents may factor this into their bidding strategies regarding floor and ceiling settings.

5. How are green certificates treated under the CIS?

The treatment of green certificates will depend on whether the CIS project has contracted for these certificates.

- If the CIS project has contracted for its green certificates (either as part of a bundled Power Purchase Agreement or a separate contract for green certificates only):
 - the sale must be at an arm's length price and not with a related party for the contracted price to be included in the revenue calculation as an Eligible Contract.
- If the CIS project has not contracted for its green certificates, or if the transaction is not considered to be at an arm's length price, or the transaction is with a related party:
 - the value of the green certificates could be based on the average closing spot price over a period of days across a number of market platforms specified by the Australian Government.

Green certificates whose value is not realised are proposed to be deemed at the market price for each product that is created or referred to the project over the support year.

6. How are negative prices considered under the CIS?

Negative wholesale prices are excluded from CIS net revenue calculations. Only positive wholesale prices contribute to the project's net revenue position – in other words, dispatch at negative prices (below \$0/MWh) are deemed at \$0/MWh for the net revenue calculations.

As discussed in Question 2 above, the Eligible Generation for CIS underwriting includes all of the project's generation sent out by the project (in MWh and adjusted for Marginal and Distribution Loss Factors), including during times when prices are negative.

7. How long is the period of CISA support?

Successful projects can receive CIS support for up to a maximum of 15 years. The length of the support contract is a biddable variable in the tender process. The CISA will include an option to enable the operator to opt out of the CISA revenue support arrangement for the following 5 years.

Eligibility

8. What technologies are eligible for this CIS tender?

The CIS is technology neutral amongst zero emissions technologies (noting that projects that use native forest wood waste are not eligible). The CIS also aims to support projects that will become operational in the period prior to 2030.

9. Can staged projects and/or projects with multiple connections participate in the CIS?

Proponents with staged projects and/or projects with multiple connections may need to consider how to participate in the tender process. The definition of what constitutes a staged project has not been finalised and decisions in this regard may be made on a case-by-case basis during the assessment process. The following are indicators of a staged project:

- The project has multiple grid connections and/or AEMO registrations.
- Each stage of the project is in principle capable of being owned by different equity holders, financed by different debt providers, or built by different engineering, procurement and construction contractors.
- Stages of the project may share infrastructure, but an initial stage is not necessarily dependent on a subsequent stage. Projects that bid wholly in a single tender round will be assessed against the Merit Criteria and Eligibility Criteria as a single project.

10. Are Virtual Power Plants (VPPs) eligible?

Virtual power plants, demand response, and other virtual aggregation and flexible load technologies will not be eligible to bid in this tender round. However, the inclusion of these technologies in future clean dispatchable tender rounds is being considered and subject to the development of an appropriate methodology for valuing and comparing these technologies.

11. Are community energy projects eligible?

If a community energy project and associated project proponent meet the Eligibility Criteria (see Table 1 and Table 2), they will be eligible to participate in this tender process.

Assessment approach

12. Will the lowest floor price bid be guaranteed to receive a CISA?

No. The aim of the CIS is to attract the best quality projects based on a holistic value for money assessment. The overall expected cost of supporting the project will be assessed based on a number of electricity market modelling scenarios and will include projections of the dispatch weighted price to be received by the project. Therefore, a project with a higher floor but also higher expected dispatch weighted prices may be forecast to require less support than a project with a lower floor but even lower dispatch weighted prices.

The assessment process will also include factors such as timing, contribution to system benefits, deliverability, organisational capacity and community and First Nations engagement and shared benefits.

Proponents should aim to bid at a price that is both competitive and sufficient to allow projects to operate sustainably in an environment of high renewables penetration.

Projects will make their own decisions regarding financial structuring and gearing levels. Some projects may target their floor price to primarily cover their debt obligations to ensure that they are competitive. High quality projects that anticipate scoring well against key assessment criteria may choose to bid a floor price that potentially covers a component of both debt and equity to facilitate their project development. The assessment process will assess all bids against the assessment criteria rather than targeting a particular level of financial coverage.

13. How will the cap be assessed with reference to the floor?

All financial bid aspects, including the floor, ceiling, and annual support cap, as well as a project's expected revenue over the support period will be assessed to determine the total expected value of net support (or revenue sharing from the project) over the duration of the support period across a range of different wholesale electricity market modelling scenarios.

Community engagement and shared benefits

14. How is the CIS going to improve outcomes for First Nations people?

The Australian Government recognises that First Nations people are important partners in the Clean Energy Transformation and that the CIS represents a unique opportunity for First Nations participation, leadership, and shared economic benefits.

Proponents are required to demonstrate they have a well-developed understanding of the First Nations communities that will be impacted by their project and to provide details of their engagements to date with Traditional Owners and affected First Nations groups.

Both Merit Criteria 4 and 7 have specific First Nations elements that will be used to assess the level of First Nations engagement, and commitments to improve the lives of First Nations people who are impacted by the energy transition.

Leading approaches and projects that can demonstrate commitments to equity and/or revenue sharing and energy offtake agreement models for First Nations groups may be more favourably assessed. The Australian Government has heard from First Nations stakeholders that this is one area where there needs to be demonstrable improvement in the delivery of clean energy projects, and it is acting on this advice for this and successive tender rounds.

Between this tender and CIS Tender 3 in late 2024, the department will undertake further engagement and consultation with First Nations groups and stakeholders to improve assessment processes and to address First Nations policy considerations.

15. How is the CIS going to improve outcomes for the community and local economies?

Driving positive change in social licence outcomes is vital for the transition to a net-zero economy.

The Australian Government is committed to ensuring CIS supported projects are providing benefits to local communities, using local content and supply chains, and providing job opportunities.

The assessment of social licence outcomes for the previous tender process, centred on approaches to community engagement, and commitments to invest in local communities, and economies. These commitments become contractually binding for successful projects.

For this tender process, the Australian Government is ensuring proponents have clarity on the importance and expectations associated with social licence for successful bids. This is reflected through an increase in the weighting of social licence Merit Criteria, MC4 and MC7.

For the assessment of local content elements under MC7, bids for projects that have completed an Australian Industry Participation Plan may be assessed with higher merit.

Please note that ‘social licence’ covers a range of factors including local employment, use of local content, local community benefits, stakeholder engagement and participation. The Australian Government will provide additional information on the expectations for the social licence criteria through webinars, market briefing documents and the Tender Guidelines.

16. What environmental requirements are applicable to CIS projects?

CIS projects are expected to meet all necessary Commonwealth, and state or territory environmental and planning laws and requirements.