



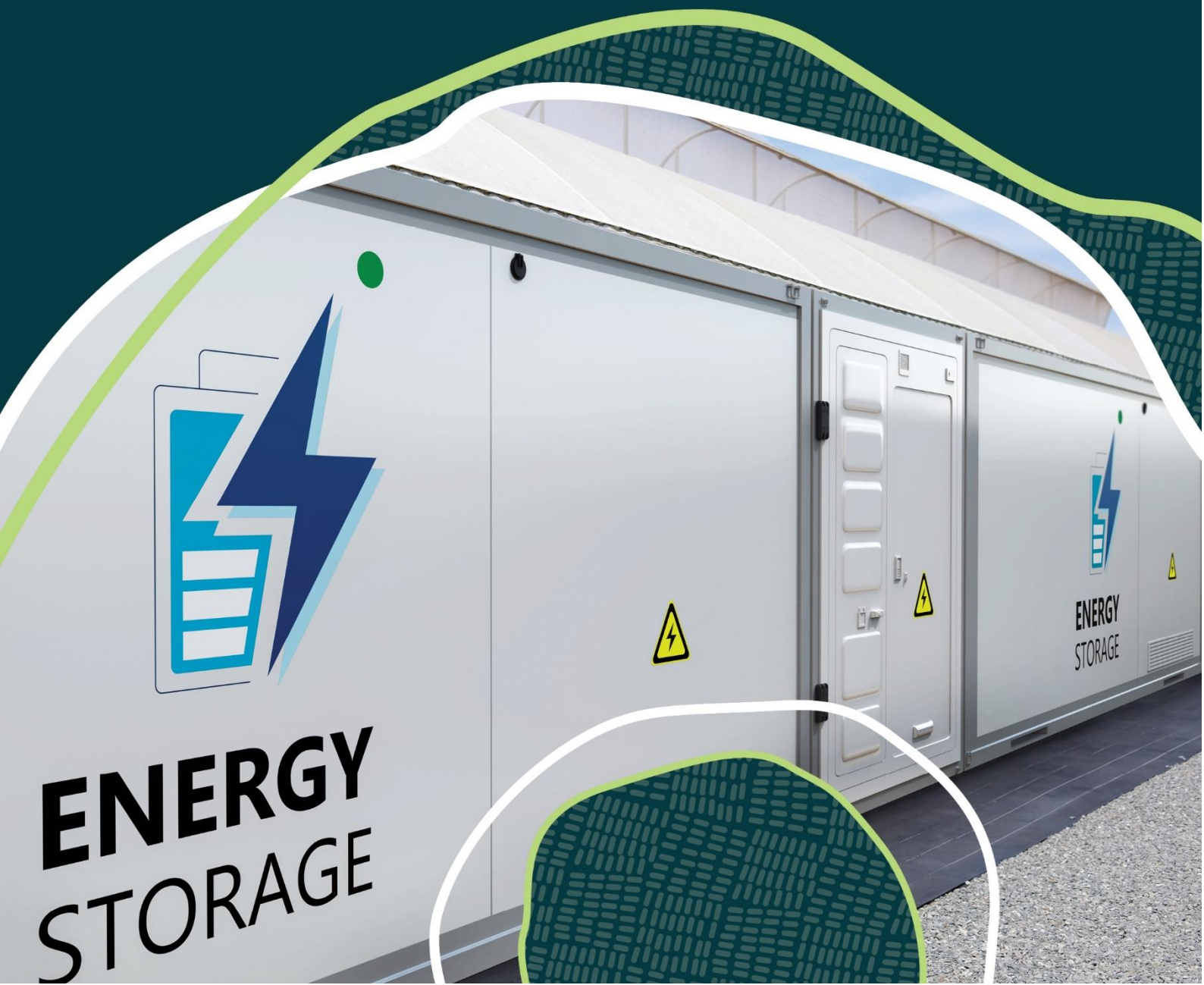
Australian Government

Department of Climate Change, Energy,
the Environment and Water

Capacity Investment Scheme

Market brief on Capacity Investment Scheme
Tender 3: National Electricity Market –
Dispatchable Capacity

October 2024



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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 rollout of the *Capacity Investment Scheme (CIS) Tender 3 – NEM Dispatchable*. The rollout of Tender 3 is presently under development and the information contained in this publication is subject to change. This publication does not indicate commitment by the Australian Government to any, or any particular course of, action in relation to the CIS or otherwise.

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Acknowledgement of Country

We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past and present.

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Purpose

The purpose of this market brief is to provide information to potential proponents (Proponents) about the upcoming **Capacity Investment Scheme (CIS) Tender 3: National Electricity Market (NEM) – Dispatchable Capacity (Tender 3)**. Tender 3 is expected to open for registrations and bid submissions on 13 November 2024.

A separate tender for generation in the NEM, **CIS Tender 4: NEM – Generation (Tender 4)**, will open in late November. A separate market brief for Tender 4 will be published in mid-November.

This document provides an overview of Tender 3 and an update on the policy positions for this tender. The information provided is indicative only and intended to provide high-level guidance for Proponents. Full details, including the Eligibility Criteria and Merit Criteria, will be published in the Tender Guidelines and the draft Dispatchable Capacity Investment Scheme Agreement (CISA) at the commencement of the Tender 3 Process. Please see the disclaimer on Page 2 of this document for more information.

Proponents should note that:

- The Australian Government has engaged the Australian Energy Market Operator (AEMO) to assist with the administration of the Tender 3 Process.
- Tender 3 Process is not a procurement for the purposes of the *Commonwealth Procurement Rules*.

Context

Tender 3 is a competitive process, under the CIS, to secure dispatchable capacity in the NEM.

The CIS is an Australian Government program to accelerate investment in new renewable energy generation, such as wind and solar, and clean dispatchable capacity, such as battery storage. The CIS comprises a series of competitive tenders for underwriting contracts to deliver 32 gigawatts of capacity by 2030, to help fill expected reliability gaps as ageing coal-fired power stations retire and demand grows, place downward pressure on electricity prices and to support the government's 82% renewable electricity target by 2030. CIS tenders will be held around every 6 months in the NEM and around every 12 months in the Wholesale Electricity Market (WEM) until the end of 2026.

For further information on the CIS tenders please visit the [AEMO Services webpage](#) and the [Capacity Investment Scheme webpage](#) on the Department of Climate Change, Energy, the Environment and Water's (DCCEEW) website.

Projects will bid for a CISA, which is a contract between the successful Proponent for a project and the Australian Government. The CISA provides partial revenue support for nominated support periods where a project's net revenue falls below an agreed 'floor' (subject to an agreed annual cap). The CISA also requires projects to pay a percentage of net revenue to the Australian Government where net revenue exceeds an agreed 'ceiling' (subject to an agreed annual cap).

The primary consideration in awarding a CISA in respect of successful tenders under the CIS is overall value for money, which extends beyond cost considerations. Projects will be assessed on expected financial cost, and additional criteria including:

- expected timeframe for delivery and delivery risks,
- contribution to reliability and system benefits,

- ability to deliver strong benefits to the local community – including support for local communities, local jobs and local content, and
- culturally aware engagement with First Nations groups – including shared economic and social benefits with impacted First Nations communities.

The CIS aims to deliver sufficient support to allow projects to proceed and operate sustainably in an environment with high levels of renewables penetration.

Tender 3 Target Capacity

Tender 3 will invite bids for clean dispatchable capacity projects in the NEM, with an indicative target of 4 GW of four-hour equivalent dispatchable capacity, or 16 GWh.



Projects with a minimum duration of 2 hours are expected to be eligible, subject to satisfying the Eligibility Criteria.

A further market brief will be issued shortly detailing minimum allocations by jurisdiction as Renewable Energy Transformation Agreements (RETAs) are finalised. RETAs are bilateral agreements between the Australian Government and jurisdictions to achieve shared objectives in the renewable energy transformation.


Tender 3 Process

The Tender 3 Process will be run similarly to the previous NEM tenders¹. Table provides a high-level overview of the key stages and dates for the Tender 3 Process.

Table 1 - Key Dates

Stage	Indicative key dates
	Tender 3 Process commencement date Tender Guidelines released, registrations and bid submissions open 13 November 2024
	Registration closing date 9 December 2024
	Stage A – Project Bid closing date 16 December 2024
	Invitation to submit Stage B – Financial Value Bid March 2025*

¹ Information and documents for previous tenders can be found on the [AEMO Services website](#). This includes the NEM Tender 1 – Generation Capacity Tender and the SA-VIC Dispatchable Tender.

	Stage B – Financial Value Bid closing date May 2025*
	Announcement of successful bids September 2025*

*NOTE: These dates are indicative and **subject to change**. Final dates will be communicated throughout the Tender.

Project Bids must demonstrate compliance with all proponent and project Eligibility Criteria before being competitively assessed against a proposed nine Merit Criteria across Stage A and Stage B. This will be followed by Due Diligence in Stage C. Project bids that do not continue to meet all eligibility criteria throughout the tender will cease to be considered, and bids that are assessed as low merit against any of the Merit Criteria may not be assessed further.

The nine proposed merit criteria for Tender 3 are outlined in Table 2 below. A key change includes the separation of the First Nations and community engagement and benefits criteria. This is discussed further in the ‘First Nations and Social Licence’ section below. Another change is to explicitly note the assessment of system value under merit criterion 6, including contribution to system reliability and to supporting the 82% renewable energy target.

Table 2 – Proposed Merit Criteria

Merit Criteria (MC)	Description
Stage A	
MC1 – Contribution to system reliability and system benefits	This criterion will be used to assess the impact each Project may have on the electricity system, including reliability and the Project’s ability to provide essential system services and/or contribute to system strength.
MC2 – Project deliverability and timetable	This criterion will be used to assess the Project’s progress and feasibility to reach commercial operation date (COD). Proponents that can provide detailed evidence to demonstrate their ability to deliver each milestone, with clear articulation of strategies for mitigating delivery risks, are likely to be assessed more favourably.
MC3 – Organisational capability to deliver Project	This criterion will be used to assess the track record, capability and capacity of the Proponent and its delivery partners involved in the Project to provide assurance that the Project can be delivered as outlined in the Project Bid.
MC4 – First Nations engagement	This criterion will be used to assess the Proponent’s approach to engagement strategies and understanding of First Nations communities.
MC5 – Community engagement	This criterion will be used to assess the Proponent’s approach to engagement strategies and understanding of stakeholders and local communities.
Stage B	
MC6 – Financial value and system benefits	This criterion will be used to assess financial value and system benefits.
MC7 – Contract departures	This criterion will be used to assess the nature and extent of any commercial departures and the resulting risk-transfer from the proforma Project Documents, in particular the CISA.

MC8 – First Nations commitments	This criterion will be used to assess the quality of the Project’s approach and strength of binding commitments to improve First Nations economic and social outcomes, including economic participation for First Nations Groups.
MC9 – Community benefits and local content commitments	This criterion will be used to assess the quality of the Project’s approach and strength of binding Social Licence Commitments to improve local economic and social outcomes, and regional economic development, including local supply chains and workforce.

All arrangements for Tender 3 will be published in the Tender Guidelines, draft CISA, and Social Licence Market Brief. These will be published at the opening of Stage A for Tender 3, scheduled for 13 November 2024. Information in the Tender Guidelines, draft CISA and Social Licence Market Brief may include changes to matters set out in this document and will take precedence over the information in this document.

Key Changes

This tender (Tender 3 - NEM Dispatchable) is most similar in design to the [SA-VIC Dispatchable Tender](#), but also incorporates some features from [Tender 1 - NEM Generation](#). The sections below outline the changes to the key design elements between this tender and these previous tenders.

Note: Tender 2 – WEM Dispatchable should not be considered a precedent for this tender, given the significant differences between the WEM and the NEM.

Hybrids

Bidding options

A hybrid project may choose to participate in either Tender 3 or Tender 4, but not both.

In **Tender 1 - NEM Generation**, hybrid projects were offered the option to bid as either **Assessed or Non-Assessed**. An Assessed Hybrid bid allowed both the generation and storage assets to be included in the Merit Assessment, with the exception of CISA cost, which was evaluated for the asset receiving the underwriting (in this case, the generation asset). If an Assessed Hybrid Project Bid was ultimately awarded a CISA, the proponent was required to deliver the whole hybrid project (i.e. both the Generation Project and the co-located Associated Storage Project).

In Tender 3, a hybrid project may only bid as a Non-Assessed Dispatchable Asset. This means:

- The Associated Project (in this case, the Generation Asset) will not be included in the assessment of the Proponent’s bid. This applies to all merit criteria.
- The Proponent will be under no obligation to deliver the Generation Asset under the terms of the Dispatchable CISA.

Further guidance for hybrid bidding options and interactions with other CIS tenders will be provided in the Tender Guidelines.

Deemed cost to charge

The cost of charging for hybrid projects was not explicitly considered in previous dispatchable tenders. Hybrid projects differ from standalone projects in that they have the option of charging the Storage Asset from the Generation Asset or from the grid. Tender 3 will deem the cost of charging such that these costs are identical, with some exceptions to ensure the Australian Government does not underwrite price risks to which the Hybrid Facility is not significantly exposed.

To that end, the wholesale cost of charging under the Hybrid Dispatchable CISA will be deemed differently according to the scenarios in Table 3. This arrangement is also shown schematically in Figure 1.

Table 3 - Deemed cost to charge under the Dispatchable CISA

Scenario	Spot Price	Charge Source	Deemed Charge Price
0	Any	Import from Grid	Spot Price
1	< \$0/MWh	BTM ¹ Generation	Spot Price
2	≥ \$0/MWh	BTM Generation within PoC limit ²	Spot Price, capped at LCOE ³
3	≥ \$0/MWh	BTM Generation in excess of PoC limit ²	\$0

¹ **BTM** – Behind the Meter; referring to energy that is diverted from the Generation Asset into the Storage Asset rather than being exported to the grid.

² **PoC** – Point of Connection. This consideration only applies to Facilities whose maximum export capacity at the PoC is below the nameplate capacity of the Generation Asset.

³ **LCOE** – The mean Levelised Cost of Electricity for the Generation Asset, as published in the latest available CSIRO GenCost report (or equivalent) for the nominated year of financial close.

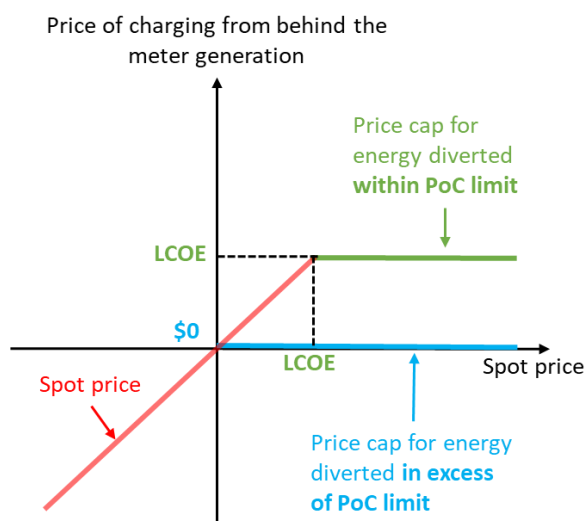


Figure 1: Price of charging behind the meter from Generation Component as deemed under the Hybrid Dispatchable CISA.

Metering for DC-coupled hybrids

The Australian Government recognises the challenges and costs associated with using revenue-quality sub-metering for DC-coupled Hybrids. The Australian Government welcomes proposals for alternative cost-effective metering arrangements for DC-coupled hybrids, which may take the form of proposed text in the draft CISA submitted at Stage A. The Australian Government will consider proposals and may accept or adopt them, provided the proposed approach is able to distinguish the relevant volumes under the CISA with acceptable accuracy, precision, and reliability.

First Nations and Social Licence

To deliver positive social and economic outcomes from CIS supported projects, the Australian Government is embedding strong social licence policy expectations on clean energy project proponents who receive funding support to help deliver their projects. This is in response to

feedback from stakeholders including First Nations groups, Australia's manufacturing sector, unions, peak bodies, and regional and community organisations.

Projects will be attributed higher merit where they demonstrate better practice and genuine:

- First Nations engagement, and First Nations social and economic benefits,
- community engagement, and social and economic benefits,
- demonstrated use of local content, employment, skills and training, and
- adoption of high labour standards.

The Australian Government will continue to evolve the design of the CIS through the life of the program considering experience and market developments. A number of key changes are being introduced in Tender 3, compared to previous CIS tenders, and these are outlined below.

First Nations

A new First Nations eligibility criterion will be introduced, which will require Proponents to demonstrate a clear intent and commitment to uphold First Nations legal protections. Under the new eligibility criterion, Proponents must warrant they have not previously breached First Nations cultural heritage, environmental and racial discrimination protection laws. The laws will cover:

- *Racial Discrimination Act 1975 (Cth)*
- *Aboriginal and Torres Strait Islander Heritage Protection Act 1984 (Cth)*
- *Environment Protection and Biodiversity Conservation Act 1999 (Cth)*
- *Protection of Movable Cultural Heritage Act 1986 (Cth).*

There will be new standalone First Nations merit criteria, which will allow an assessment of First Nations outcomes separately to outcomes for general host communities. The Tender 1 Merit Criterion 4 - First Nations engagement, community engagement and benefits sharing will be separated for Tender 3 into a First Nations engagement criterion and a community engagement criterion. Merit Criterion 7 - First Nations and Social Licence Commitments, from Tender 1, will be split into a First Nations commitments criterion, separate from the community, local employment and local content criterion. Full details on these merit criteria and associated weightings will be published in the Tender Guidelines.

Projects will be attributed higher merit scores under the First Nations merit criteria where they:

- fund programs to help First Nations people to enter the workforce and remove known blockages for entering (i.e. trade skills and licencing requirements, and small business readiness programs).
- can meet (where locationally practical to do so) the [Australian Government's Indigenous Procurement Policy targets](#), that range from 2.5% to 3% from 2025 to 2027 for Commonwealth non-corporate entities.

First Nations equity and revenue sharing set aside for 2026 tenders

For tenders in 2026, a minimum megawatt (MW) allocation will be set aside for exemplar projects that have put in place First Nations equity and revenue sharing agreements. This is aimed at delivering projects that ensure economic benefits are shared and support genuine formal partnerships and shared decision-making with First Nations people to drive the clean energy transition.

The First Nations equity and revenue set aside (set aside) will be co-designed in 2025 with First Nations stakeholders and the clean energy industry to maximise positive outcomes for First Nations people and projects.

The department will seek feedback on appropriate eligibility criteria to provide access to projects to bid for the set aside and will consider appropriate equity sharing percentage ranges to award higher scoring. The set aside will also promote leading practice engagement, co-design and benefit sharing practices to support the expected upcoming release of the First Nations Clean Energy Strategy.

Community engagement and benefits

Projects will be attributed higher merit where they:

- involve project co-design with the community,
- provide co-ownership and co-investment opportunities, and/or
- provide benefit sharing governance models that promote strategic regional benefit disbursements.

As noted above, alongside a separate First Nations merit criterion, a standalone merit criterion for local content, employment and community benefits will be included.

Local content and employment

In Tender 1, under Merit Criterion 7 – First Nations and social licence commitments, it was stated that projects may be found to be of higher merit if they meet certain local content and local employment targets.

In Tender 3, projects will be found of higher merit if they can meet local content and local employment targets.

Local content targets will be based on those established by the [NSW Renewable Energy Sector Board Plan](#) (see Table 4), including a stretch goal of using 95 per cent locally milled steel in steel products and components.

Table 4 - NSW Renewable Energy Sector Board Plan: local content targets

Supply chain input criteria	Minimum requirements			
	Wind	Solar	Pumped hydro	Battery storage
Before COD – development and construction phase (% of total CAPEX)	40%	49%	66%	23%
After COD – operation and maintenance phase (% of total OPEX)	51%	71%	61%	35%
Steel product and components using locally milled steel (% of total steel)	10%	95%	30%	95%
Supply chain input criteria	Stretch goals			
	Wind	Solar	Pumped hydro	Battery storage
Before COD – development and construction phase (% of total CAPEX)	72%	81%	86%	78%
After COD – operation and maintenance phase (% of total OPEX)	76%	81%	82%	79%
Steel product and components using locally milled steel (% of total steel)	95%			

Local employment targets will be based on the [Australian Skills Guarantee](#) (ASG) for apprentices/trainees and for female employment. The targets are based on ASG's major construction project for the construction sector. These targets use labour hours (rather than head count) which ensures that apprentices and trainees work a minimum number of hours on a project and therefore constitutes a better measure of labour effort. These targets include:

- A minimum of 10% of all labour hours to be undertaken by apprentices/trainees.
- A minimum of 6% of all apprentice/trainee labour hours to be undertaken by women.
- A minimum of 4% of trade apprentice/trainees in specific trades to be undertaken by women.

The department will continue to work with stakeholders on developing a strengthened approach to labour standards to promote safe, secure, well-paid jobs with good conditions. This may include introducing New Energy Standards for tender rounds in 2025 and 2026 which is being developed with advice from the Electrical Trades Union.

The CIS will also look to support the development and release of the National Energy Workforce Strategy when finalised.

Target COD

The Target Commercial Operations Date (COD) for Tender 3 is 31 December 2029.

The Target COD is not an Eligibility Criteria and will be merit assessed. The earlier a project's COD, with milestones that are contractually enforceable, the more favourable they will be viewed.

Eligible Wholesale Contracts

Automatically eligible contracts

Fixed-fee physical and virtual tolling arrangements with non-related parties may be considered as Eligible Wholesale Contracts for Tender 3. The conditions that will need to be met to be considered an Eligible Wholesale Contract will be outlined in the CISA, however at a minimum it is expected that these arrangements will be bona fide commercial arrangements entered into on an arm's length basis.

Related party contracts

Wholesale contracts signed between related parties will by default not be treated as Eligible Wholesale Contracts for Tender 3.

Provisional eligibility

Contracts that are not automatically deemed eligible (including related party contracts) may be deemed eligible by the Australian Government. The Australian Government will be more likely to exercise its discretion to deem a contract to be eligible where the following has been demonstrated:

- The contract has a direct relationship with the dispatch capabilities and operational constraints of the CISA asset.
- There is liquidity and price transparency evident in the market, allowing prices and terms to be benchmarked.
- Risk allocation is transparent, and risk is equitably allocated to the parties most able to price and manage the risk.

Successful proponents are invited to approach the Australian Government at any time during the CISA term to determine whether a given contract can be deemed eligible under this framework.

Opt-Out Provisions

Tender 1 - NEM Generation offered 3 fixed opt-out periods in the 2nd, 7th and 12th support years, provided the CISA holder gives 6 months' notice and returns any support previously received from the Australian Government.

The Australian Government will allow holders of Tender 3 CISAs to opt-out at any time after the first support year for a minimum duration of 5 years, provided the CISA holder gives 6 months' notice and returns any support previously received from the Australian Government.

Eligibility of NSW Access Rights Projects

For projects participating in access rights for the NSW South-West or Central West Orana Renewable Energy Zones (REZs) or intending to participate in the next access right process, a response to a connection enquiry at the time of bid submission is not required. There is likely to be a sunset date included prior to when the next access right process would need to have commenced for the project to be able to execute a CISA in Tender 3.

Other Policy Positions

This tender is the first dispatchable tender run in the NEM since the [SA-VIC Dispatchable Tender](#). While there have been a number of changes, as outlined above, there are some key policy positions that have not changed for this tender. These are outlined below.

Virtual Power Plants (VPPs)

Due to the impending final determination of the AEMC rule change "Integrating Price-Responsive Resources into the NEM" (ERC0352, due 19 December 2024), virtual power plants (VPPs), demand response, or other virtual aggregation and flexible loads continue to be explicitly excluded from eligibility for Tender 3.

In recognition of the potentially significant contribution of sub-utility-scale aggregated resources in reaching 82% renewable generation by 2030, the Australian Government intends to release a consultation note in early 2025. This note will seek to engage with stakeholders to identify and overcome areas of uncertainty with the goal of opening up the eligibility criteria to include aggregated resources in future tenders.

Financial Value Assessment Clarification

The following is a clarification of the Financial Value assessment methodology, which is not a change from previous tenders.

As per the Tender 1 MC5 Market Briefing Note², the Financial Value criterion will be used to assess financial value, based on the forecast cost of the CISA, compared against the benefits associated with the Project.

The forecast cost of the CISA is assessed according to ONE metric: the *weighted net present cost of payments expected to be made by the Australian Government to the Project under a range of scenarios*, as per Section 3.2 Scenario Analysis in the Tender 1 MC5 Market Briefing Note.

² [Market Briefing Note - MC5 Financial Value](#)

For the avoidance of doubt, the CISA cost assessment does NOT consider the cost of payments expected below the floor OR the value of claw back expected above the ceiling as separate items.

Refer to Section 4.3 - Net CISA Cost in the Tender 1 MC5 Market Briefing Note for the details of the CISA cost calculation. The scenarios and weightings used for these calculations for Tender 3 will be updated in a briefing note which we intend to provide prior to Tender 3 Stage B Financial Value Bid submissions.

Lack of Reserve Level 3 (LOR3)

The operational requirement for dispatchable assets to respond to LOR3 events was previously proposed but ultimately withdrawn in the SA-VIC Dispatchable Tender based on consultation feedback. The dispatchable CISA for this tender will not contain any requirements to respond to LOR3 events, and it is not being contemplated for future tenders.