Response by Energia to SEM-24-024

Proposal to Introduce Early Delivery Incentives into the CRM

15 April 2024

1 Introduction

Energia welcomes the opportunity to respond to this consultation on introducing early delivery incentives into the CRM. Energia has responded to SEM-24-019 on the parameters for the T-4 28/29 CRM auction separately. Energia would welcome the opportunity to discuss any aspect of this response with the RAs.

2 Consultation Questions

As a general comment, Energia's overall view is that much of what is trying to be achieved in terms of incentivising capacity to deliver early when it is required can already be achieved through T-1 auctions. If the RAs are concerned about introducing gaming incentives, particularly the termination of already awarded capacity in order to re-enter T-4 auctions with more favourable conditions, it may be better to continue to review the functioning of T-1 auctions and how they can be utilised on a case-to-case basis to incentivise early delivery, rather than introduce new incentives.

2.1 Overall Design of Early Delivery Options

Energia acknowledges that the RAs are seeking to procure additional capacity as soon as possible following the failure to meet some of the locational capacity requirements at the T-4 2027/28 auction. While in principle Energia can understand the logic of incentives for early delivery, there are several concerns with how this might be implemented in practice, some of which are highlighted in the consultation paper itself.

In the first instance, New Capacity with multi-year contracts that can deliver up to one year early already has the ability to be paid to do so via entering a T-1 auction. Multiple auction participants, including Energia's Castlereagh Battery Energy Storage System, have availed of this option in the past. Furthermore, the decision to approve modification CMC_03_23 allowed the RAs more flexibility in setting the Long-Stop Date for T-1 auctions, which has been used to effectively de-risk the delivery of New Capacity at T-1 auctions.

While entering a T-1 involves a participant securing a different clearing price, historically these prices have been higher than at T-4 auctions and therefore this should not present a barrier to delivering early via a T-1. In addition, if there is insufficient requirement at a T-1 auction, a participant may not be able to secure a contract. However, this is aligned as to whether there is a need to incentivise early delivery for a given capacity year, and therefore this limitation is entirely appropriate.

The consultation states that as per CMC_13_23, a unit could get paid on Minimum Completion if it did not expect to achieve Substantial Completion. However, the text referred to in the code, J.6.1.4A, only applies after the beginning of the Capacity Year in question, and therefore is not relevant to early delivery. The CMC would have to be amended to allow participants to deliver early and be paid for Minimum Completion, and subsequently be uplifted if they achieved Substantial Completion.

2.2 Eligibility

It is difficult to envisage how the provisions proposed could be applied to anything other than New Capacity, as Existing Capacity that is successful at a T-4 should already have a contract for the year prior to delivery. If there are substantial benefits from refurbishment for which a participant is awarded an Intermediate Length Contract, it may be worth considering whether early delivery incentives could be used to allow capacity to deliver refurbishment early (thus benefiting the system) and be paid early via its ILC.

2.3 Limiting Payments to One Year or Less

Energia agrees that if the proposals are introduced it would be sensible to limit payments to one year or less, as otherwise the risk of gaming is greater.

Several times in the consultation, the RAs identify the risk of units/assets from previous auctions terminating their existing contracts and entering a new T-4 in the expectation of being paid higher prices for early delivery. Energia has previously identified the risk of projects terminating and re-entering new auctions for higher prices, and we have already seen previously terminated projects re-entering the CRM at higher prices in the past.

While the consultation paper identifies the risk, and how it is relevant to the proposal, it does not propose any significant mitigations (as the risk still exists even after limiting payments to one year or less prior to the original delivery year). Section J.6.1.10 of the CMC explicitly allows terminated projects to re-enter auctions.

Section E.7.5.1 requires the SOs to reject applications from New Capacity where implementation plan dates are unachievable. If these proposals are introduced, it will be even more important that the SOs rigorously assess whether proposed timelines for the delivery of New Capacity are realistic.

2.4 Payment Multipliers

Energia agrees with the minded to position not to employ payment multipliers for early delivery, as this would add complexity and increase the identified risk of gaming.

2.5 Qualification and Exception Application Rules or Processes

Energia has no comments on the qualification or exception applications processes with regards to this consultation, other than our comments in Section 2.3 of this response regarding the SO assessment of implementation plans.

2.6 Applicable Auctions

Energia requests clarity that the RA's proposal is that early delivery incentives would apply only to auctions that have yet to commence, rather than to awarded capacity from already concluded auctions. As stated on previous occasions, Energia objects to retrospective changes to concluded capacity auction processes that would have had a material impact on a decision whether or not to qualify and / or bid New Capacity.