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Energy Security Board  
Secretariat  
Energy Ministers Coordination  
Department of Industry, Science, Energy and Resources  
GPO Box 2013  
CANBERRA ACT 2601

**Email: [info@esb.org.au](mailto:info@esb.org.au)**

Dear Sir/ Madam,

**Reach Solar energy response to Post 2025 Market Design – Capacity mechanism – High level design consultation paper – June 2022**

Reach Solar energy (**Reach**) is pleased to provide its response to the Energy Security Board (**ESB**) paper outlining its proposed high-level design of a capacity mechanism for the NEM dated June 2022 ("**Paper**").

By way of background, Reach is a developer of large-scale solar photovoltaic (**PV**) and distribution connected energy storage projects. Reach management ([www.reachsolarenergy.com.au](http://www.reachsolarenergy.com.au)) have a proven track record with development, large-scale capital raising and operations, for both energy and infrastructure projects in across Australia and internationally.

In mid 2017, Reach raised \$500m of project finance for Bungala One and Two, 2 x 110MWac solar PV in South Australia which is fully operational. Reach also developed a solar PV site 120km West of Wagga Wagga in NSW with 450MWac as the first stage of a 900MWac solar PV site in NSW. This project was acquired by Origin energy during Q2 2022.

Reach has the following comments on the Paper:

1. **Inclusion.** Reach advocate that the capacity scheme should be open to all form of technologies/ fuels and demand-side management, albeit note the comment in poin5 below regarding coal-fired power plants.

2. **Contract term** is not specified. The UK scheme has a term of 15 years for new investment which is considered the minimum term required to efficiently attract both equity and debt for new-build projects. The term could be less for existing projects proposing to provide load management and/or life-extension refurbishment initiatives.
3. **Centralised procurement of generation to meet demand.** This is a marked change. Since 1998 the current risk of forecasting and/ or consequence of technology/ policy change, has been with retailers i.e. the risk of scarcity pricing and a retailer not being hedged enough to cover customer demand. The Retailer Reliability Obligation is a further check on contracting. Notwithstanding this however Reach acknowledges the multiple State-based schemes have distorted pricing in the NEM nodes and rendered a number of nodes illiquid.

There are global precedents for centralized procurement of capacity including in Western Australia. However, AEMO does not have these procurement skills today and these would need to be acquired.

A centrally planned regime is not always best and it relies on accurate forecasting, not just daily but also years into the future, which can be affected by changes in technology, policy, climate and customer behavior. It is unclear who bears the risk and consequence in the inevitable event the forecasting is not correct. Reach request that clarity is provided on the risk allocation at the earliest possible stage.

There are examples in other energy markets where infrastructure has been built and then under-utilized including pre NEM and the scheme in Western Australia. The costs of this inefficiency and error in forecasting is ultimately borne by customers.

4. **Don't stifle innovation** and/ or private enterprise by a centrally planned auction. Multiple initiatives are ongoing (globally) which will change how energy is created, transported and used by customers over the next 10 to 20 years. The post 2025 rules should encourage these to ensure competition is not lessened: adversely affecting the electricity price to customers.
5. **Need for a smooth transition: retain coal-fired.** A smooth exit of coal-fired generation is important for security of supply. Reach recognize there is some resistance to include coal-fired generation in the proposed capacity scheme but its contribution needs to be valued for the plant capability to be retained (e.g. as was done in Germany). This could also be done bilaterally by State Governments' given there are not many owners of large coal-fired power plants.

Reach management consider if this is not done then it will place a strain on maintenance regimes and safe working. The number of breakdowns is expected to increase (over and above recent examples), availability will reduce, and insurance premiums increase (or certain risks will become not insurable) and an acceleration of plant exits.

6. **Transmission constraints.** It is noted that the ESB is still deliberating this matter. Reach advocate that the risk of network constraints should be borne either by transmission companies

and/ or customers. The plant performance and/ or load management performance remains the risk of the generator or demand owner.

7. **Changes to scarcity pricing in the National Electricity market.** The combination of State-based auctions (e.g NSW roadmap and Victoria RET), and the proposed capacity market will mean the scarcity pricing cap is no longer functioning or valid. However, transitional arrangements will be required for existing offtake and/ or new merchant plant (including renewable generation and/ or energy storage) which have relied on scarcity pricing in the NEM. CfDs have been entered into on the basis of the current rules, scarcity pricing and price cap. The implications for dispute between parties with these existing arrangements needs to be considered and its ultimate impact on the customer.
8. **Over delivery.** Reach consider there should be an incentive for over delivery during times of system stress.
9. **Availability during “at risk” events** is not defined. Clarification needs to be made on whether availability is calculated on plant reliability or energy exported. In particular the risk-allocation for weather is also not clear (it reads as though AEMO, and hence the customer, is bearing this). The alternative where the project is guaranteeing delivery of energy exported in every availability period, taking weather risk, is not financeable.
10. **Offtaker creditworthiness.** It is not clear who will be the counterparty to any capacity contracts. Short and long term creditworthiness of this counterparty will be critical for raising capital, both debt and equity.
11. **Don’t forget transmission and distribution.** Government focus should be on funding and accelerating transmission and distribution systems to promote competition and innovation to customers. Infrastructure projects can be de-risked by underwriting preliminary works and then adopt a competitive tender process for the known scope. The UK Government is pursuing a similar approach to connect large-scale offshore renewable generation.  
<https://www.nationalgrideso.com/document/183031/download>

I hope the ESB find the Reach response useful in forming its views on the post 2025 market design. Reach considers the policy is important and is concerned proven policy/ principles will be compromised in a rush to put something in. Please do not hesitate to contact Reach management using the email below if you have any questions.

Yours faithfully,



Julian Dichiera

Reach Solar energy