# Frontier secures Certified Reserve Capacity to underpin revenue for Waroona Stage One

**Frontier Energy Limited (ASX: FHE; OTCQB: FRHYF)** ("**Frontier**" or the "**Company**") is pleased to announce the Australian Energy Market Operator (**AEMO**) has assigned Certified Reserve Capacity (**CRC**) to the Company's Waroona Renewable Energy Project (**Waroona Project** or **Project**). Stage One of the Waroona Project comprises a 120MWdc solar facility and an 80MW/360MWh DC coupled battery energy storage system.

## HIGHLIGHTS

- **The AEMO assigns Waroona Certified Reserve Capacity, aligned with Definitive Feasibility Study (DFS) assumptions**
  - *Waroona DFS[1] estimated Reserve Capacity payments to provide up to $27 million per annum (~36%) of the revenue for Stage One*
- **Reserve Capacity is unique to WA's Wholesale Electricity Market (WEM)**
  - *Reserve Capacity Mechanism (**RCM**) ensures sufficient power is available when energy demand peaks*
  - *Generators on the WEM receive a fixed dollar payment per megawatt from the AEMO based on the Reserve Capacity Price (**RCP**) and their CRC*
- **RCP is set two years in advance and new generators (such as the Waroona Project) can lock it in for five years, with RCP escalated at CPI**
  - *Final RCP to be determined by the AEMO at the end of September*
- **Reserve Capacity payments underpin debt finance, as they are guaranteed for five years**
  - *Subsequent to the initial five years, the Project will continue to receive Reserve Capacity payments over its operating life*
- **Frontier will generate additional revenue selling energy into the merchant market during periods of peak electricity prices, maximising total revenue**

**CEO Adam Kiley commented:** *"This is a major milestone for the Company as the assignment of Certified Reserve Capacity is an endorsement from the AEMO regarding the Project's credentials to become a significant energy producing asset in Western Australia by 2026.*

*Reserve capacity is unique to WA and a key reason why the economics of our Project stand out significantly compared to other renewable energy opportunities throughout Australia. The DFS forecast Reserve Capacity payments could generate up to $27 million per annum, or around 36% of total revenue.*

*Receiving Reserve Capacity status is perhaps most important from a debt financing perspective, as this fixed and guaranteed revenue stream underpins the Project's debt capacity. The Reserve Capacity payments alone cover interest, debt repayments and some operating costs, allowing the Company to sell its energy into the merchant market with no fixed price power purchase agreement, and to take advantage of peak energy prices."*

[1] *See ASX announcement 28 February 2024*

## Assignment of Certified Reserve Capacity a major milestone

The AEMO has advised Frontier it has assigned 87.2MW of CRC to Waroona Project Stage One for the 2026/27 Capacity Year[2]. This aligns with the Company's DFS assumptions.

The bulk of Reserve Capacity Credits have in the past been assigned to Synergy and Alinta, who provide the vast majority of WA's electricity from their gas and coal power stations and more recently installed large batteries.

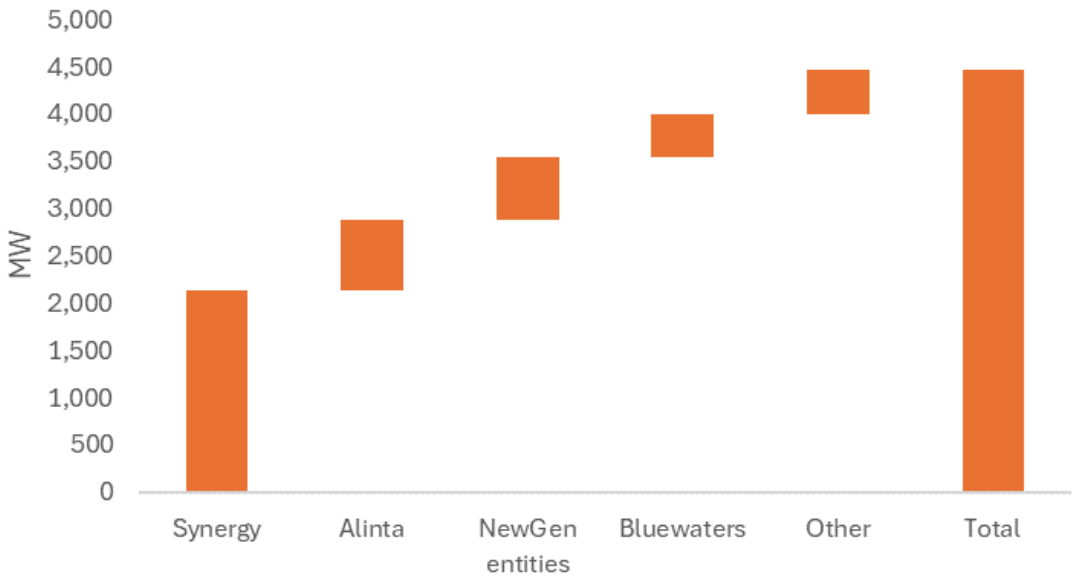



**Image 1: 2024/25 Reserve Capacity allocated to existing facilities[3]**

The assignment of CRC to Frontier demonstrates the significance of the Waroona Project to the WA energy market, confirms the advanced status of the Project and validates the Project's credentials.

Reserve Capacity provides a fixed revenue stream from the AEMO that can be locked in for five years. The Company's Stage One DFS showed that 36% of Stage One revenue may be derived from Reserve Capacity Credits (see Table 1).

| Revenues – Base Case | | Year one | 5-year Av. | 5-year % |
|---|---|---|---|---|
| Reserve Capacity Credits – battery | $m | 24.8 | 24.7 | 33% |
| Reserve Capacity Credits – solar | $m | 2.3 | 2.4 | 3% |
| Battery power | $m | 16.9 | 19.6 | 26% |
| Solar power | $m | 8.9 | 12.9 | 17% |
| LGCs | $m | 12.9 | 12.1 | 16% |

[2] *The AEMO's Reserve Capacity Year runs from 1 October to 30 September*

[3] *https://aemo.com.au/-/media/files/electricity/wem/planning_and_forecasting/esoo/2024/2024-wem-electricity-statement-of-opportunities.pdf?la=en; includes demand side programs; NewGen entities comprise Kwinana (Sumitomo) and Neerabup (Shell) gas power stations*

| Revenues – Base Case | | Year one | 5-year Av. | 5-year % |
|---|---|---|---|---|
| FCESS | $m | 1.7 | 2.2 | 3% |
| **Total Revenue** | **$m** | **67.7** | **74.0** | **100%** |

**Table 1: Project Revenue – Base Case**

CRC is a major milestone in determining the Reserve Capacity payments the Waroona Project will receive from the AEMO.

Frontier can lock in Reserve Capacity payments for a period of five years, escalated by CPI, and underpinning project debt of up to $215m to be provided by Infradebt[4]. The final debt quantum will be determined after confirmation of the Reserve Capacity Price in late September 2024[5].

## What is Reserve Capacity?

The RCM in the WEM is designed to ensure that there is adequate generation capacity available to meet forecast peak electricity demand. The RCM is unique to WA and not available in other Australian jurisdictions.

Under the RCM, electricity generation plants and storage facilities are certified and allocated capacity credits based on the size of the facility capacity. Electricity retailers are required to purchase capacity credits in proportion to their share of the electricity load in peak trading intervals. The retailers may meet this obligation by either purchasing capacity credits directly from generators under bilateral contracts or by procuring capacity credits via the AEMO at an administered price (known as the Reserve Capacity Price or RCP).

A benchmark RCP (**BRCP**) is set each year by the Economic Regulation Authority (**ERA**), with reference to the cost of adding generation capacity, to inform the RCPs received by generators. New generators are able to lock in the initial RCP, escalated by CPI, for five years.

BRCP is determined two years in advance of the energy generation period. The BRCP has increased over recent years, with the latest BRCP rising to $230,000 per MW for the 2026/27 year[6]. The reference technology that the ERA used to determine this is an open-cycle gas turbine.

When the market is forecast to be in deficit, an additional 30% premium is applied to this price. This occurred for the 2025/26 capacity year and the actual 2025/26 RCP is $251,400/MW, a 30% premium to the BRCP of $193,400/MW.

The BRCP of $230,000 for the 2026/27 capacity year will be adjusted for shortfall or surplus on a sliding scale to determine the RCP that Frontier will receive for each Reserve Capacity

[4] *See ASX announcement 24 July 2024*

[5] *Information on the AEMO's reserve capacity mechanism timetable can be found at: https://aemo.com.au/-/media/files/electricity/wem/reserve_capacity_mechanism/timetable/2024-reserve-capacity-cycle-timetable.pdf?la=en*

[6] *https://www.erawa.com.au/cproot/23833/2/2024-benchmark-reserve-capacity-price-for-the-202627-capacity-year.PDF*

Credit. Should there be any shortfall, the premium is set at 30% which would imply an RCP of $299,000/MW (see Image 2).

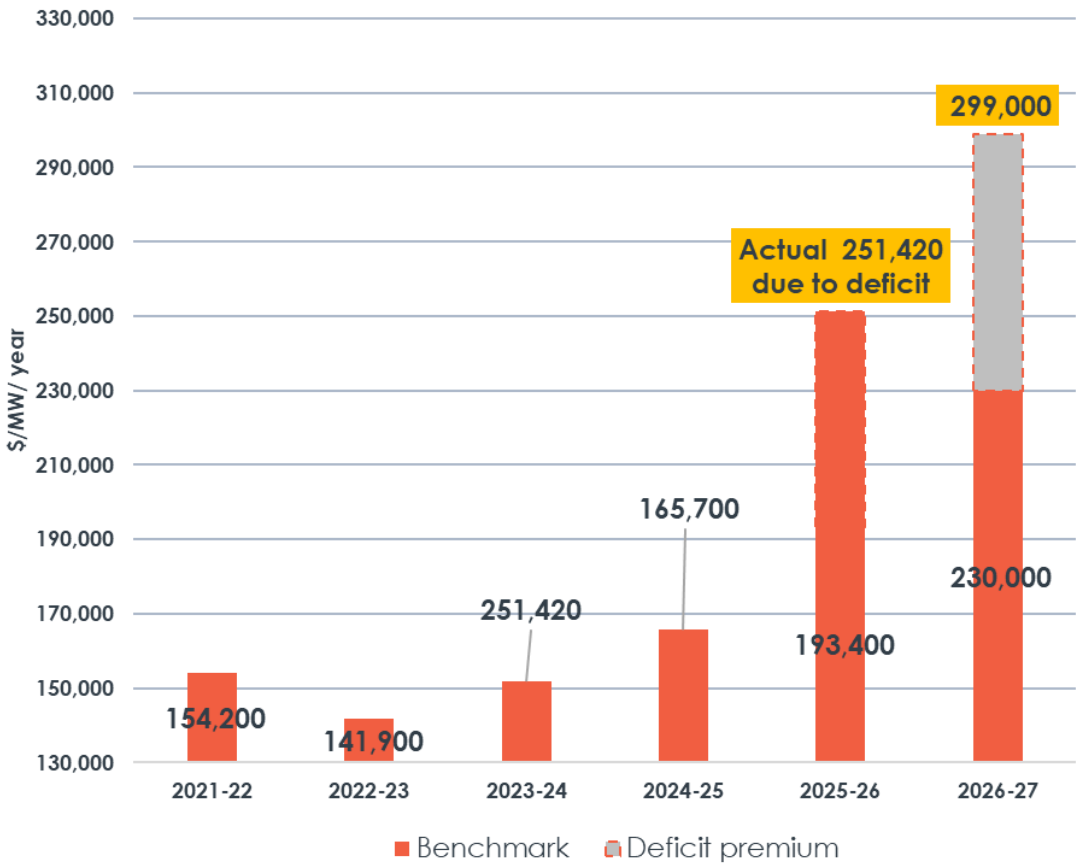



**Image 2: Reserve Capacity**

The trade-off for this payment is a lower energy price cap, $738/MWh currently and 1,500/MWh on the WEM from 2025 onwards, compared to $16,600/MWh currently on the NEM. Despite a lower price cap, the average wholesale price on the WEM over FY24 was $87/MWh, compared to $97/MWh on the NEM[7]. This average WEM price excludes the RCP payment.

## Forecast Reserve Capacity market tightness and change in reference technology to support BRCP longer term

The AEMO, which is responsible for managing the electricity and gas systems and markets across Australia, recently released its 2024 WEM Electricity Statement of Opportunities (**ESOO**)[8]. The primary purpose of the ESOO is to identify the investment in capacity from generation, storage, and demand side management needed to ensure a secure and reliable electricity supply over the coming decade.

[7] *www.opennem.org.au*

[8] *See ASX announcement 25 June 2024*

The 2024 WEM ESOO forecasts the Reserve Capacity Target (**RCT**) for each Capacity Year between 2024-25 and 2033-34 and specifically the amount of capacity to be procured through the RCM for the 2026-27 Capacity Year.

The ESOO highlights that, while the near-term supply-demand balance has improved since the 2023 WEM ESOO, substantial and sustained investment in new generation, storage, demand side programs and transmission capacity is still needed, particularly from 2027 onwards.

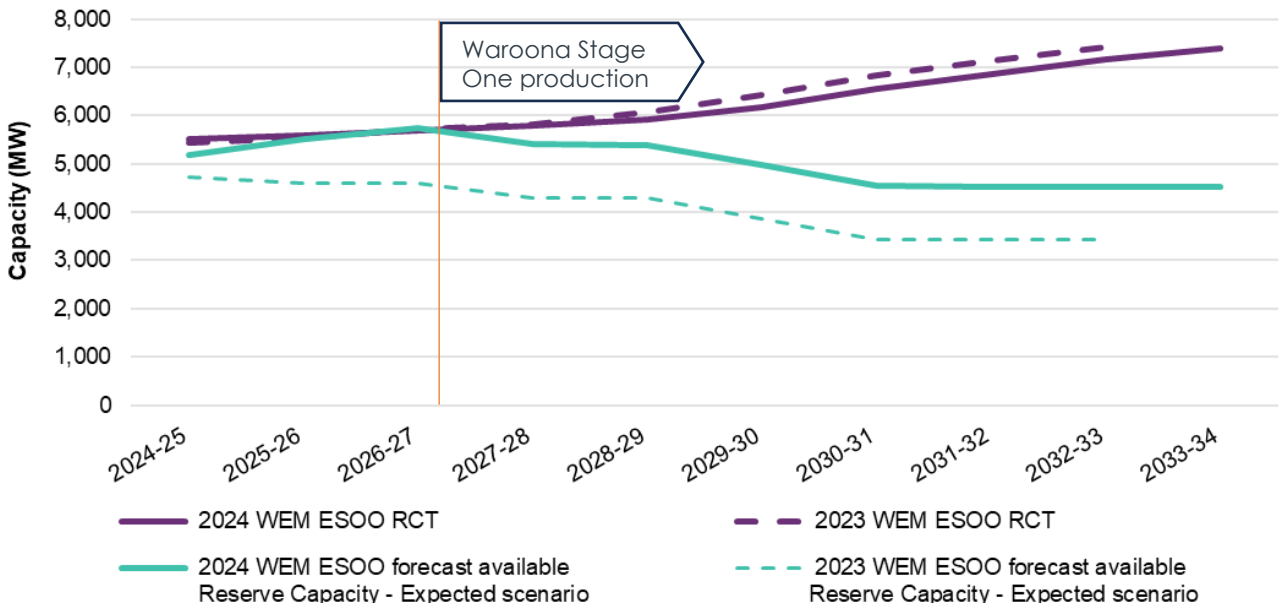



**Image 3: 2024 WEM ESOO Forecast supply / demand balance, Expected Demand scenario**

Achieving balance in 2026/27 requires an additional >1,460MW capacity (the bulk of which is new utility scale batteries) to come on stream by then. This is ~34% of current capacity.

This forecast assumes significant growth in home solar PV installations, which are forecast to grow by 9% per annum over the next decade.

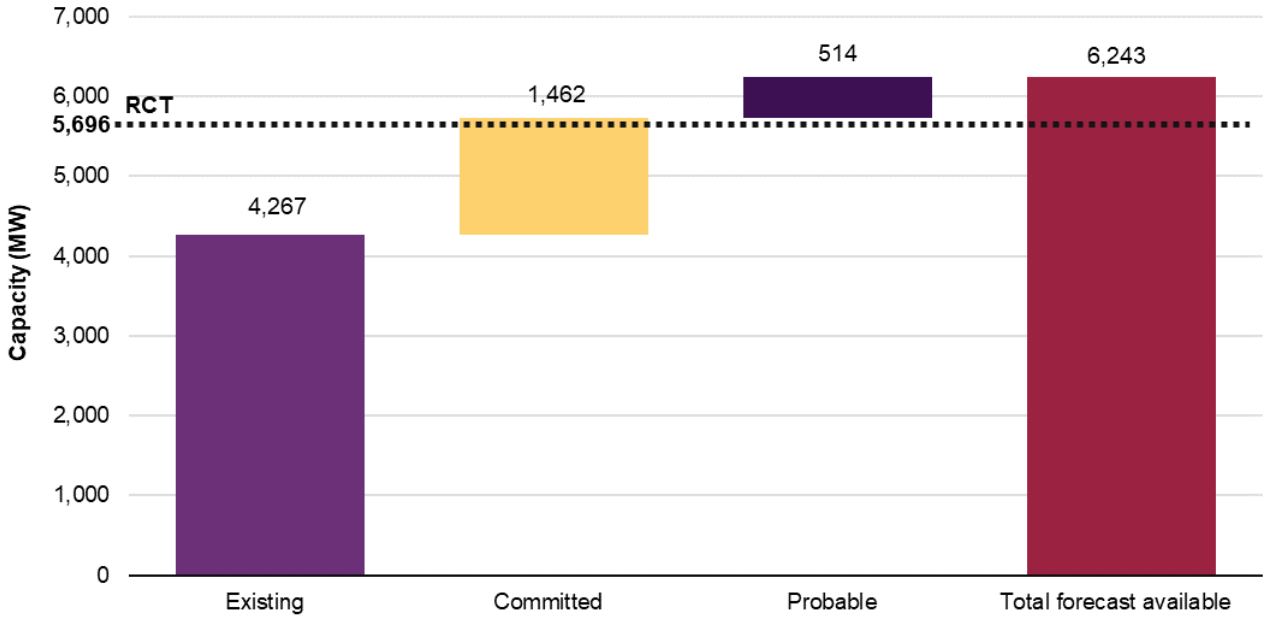



**Image 4: Forecast existing, committed, and probable Reserve Capacity for 2026-27 (MW)**

The report highlights that timely delivery of these committed projects is critical to ensuring the capacity requirement is satisfied. The AEMO flags that various factors impact the delivery of planned projects across Australia, including global supply chain and labour constraints. As such, the AEMO is monitoring the progress of committed projects and encouraging proponents to take early actions to mitigate any potential delays.

A further challenge to supply is outages of the current fossil fuelled fleet. The ESOO highlights unplanned outages of fossil-fuelled generators above 19% in January – March 2024.

In late 2023, the Government determined a 200MW / 800MWh lithium-ion 4-hour battery energy storage system, with a 330kV connection, to be the future benchmark technology[9]. The Government's consultation papers indicate this could result in further increases in future BRCPs because battery technology is more expensive to install than the current reference technology, an open-cycle gas turbine.

**Authorised for release by Frontier Energy's Board of Directors.**

To learn more about the Company, please visit www.frontierhe.com, or contact:

**Adam Kiley**
**Chief Executive Officer**
+61 8 9200 3428
akiley@frontierhe.com

**Nathan Ryan**
**NRW Communication**
+61 (0) 420 582 887
nathan.ryan@nwrcommunications.com.au

[9] *https://www.wa.gov.au/media/43698/download?inline*

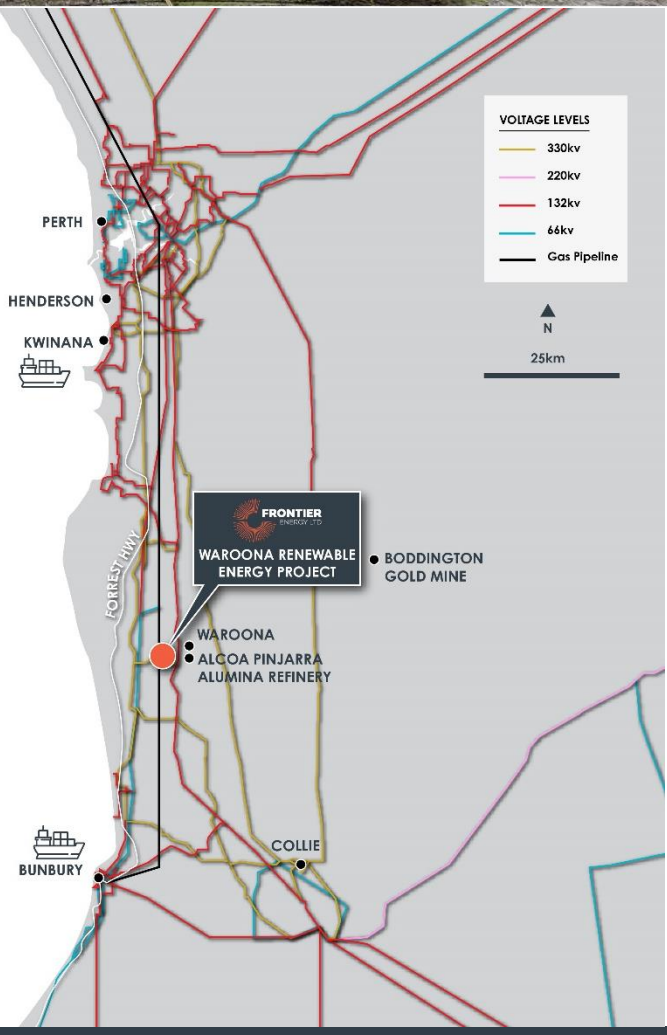
# About Frontier Energy

**Frontier Energy Ltd (ASX: FHE; OTCQB: FRHYF)** is developing the Waroona Renewable Energy Project located 120km south of Perth in Western Australia.

Waroona has the potential to become one of Western Australia's largest standalone renewable energy projects, as the Company controls 868ha of adjoining freehold land whilst also having approvals in place for a connection onto the WA electricity network (SWIS) with a terminal adjacent to the Project.

The Company released a positive DFS on a Stage One development that consists of a 120MW solar farm and 80MW/360MWh battery.

Frontier is fully committed to making the Project one of WA's major renewable energy hubs, incorporating multiple value-adding initiatives including batteries and green hydrogen, with full renewable energy potential of more than 1GW based on connection capacity.




## Directors and Management

**Mr Grant Davey**
Executive Chairman

**Mr Adam Kiley**
Chief Executive Officer

**Mr Chris Bath**
Executive Director

**Ms Dixie Marshall**
Non-Executive Director

**Ms Amanda Reid**
Non-Executive Director

## Registered Office

Level 20, 140 St Georges Terrace
Perth WA 6000

## Share Registry

Automic Registry Services
Level 5, 126 Philip Street
Sydney NSW 2000

For a comprehensive view of information that has been lodged on the ASX online lodgement system and the Company website, please visit asx.com.au and frontierhe.com, respectively.