WA energy rule changes further strengthen long term revenue outlook

Frontier Energy Limited (ASX: FHE; OTCQB: FRHYF) (**Frontier** or the **Company**) notes a number of recent favourable updates to WA's energy policy and frameworks which will have a positive impact on the economics of the Company's Waroona Renewable Energy Project (the **Project**).

HIGHLIGHTS

- **WA's Economic Regulatory Authority has released a draft determination of the Benchmark Reserve Capacity Price (BRCP) for the 2027/28 capacity year of $354,000/MW[1], a 54% increase on the 2026/27 price ($230,000/MW).**
  - *The increase in the BRCP represents a structural shift upwards as a result of a change in the reference technology used in the calculation.*
- **Energy Policy WA released the final Wholesale Electricity Market (WEM) Investment Certainty Review outcomes with multiple significant positive changes for the Project, most notably a minimum reserve capacity price floor set at 50% of the BRCP**.
  - *This provides important revenue certainty for investors and financiers, whereas previously, there was no floor to the reserve capacity price.*
- **All electricity facilities in Western Australia receive capacity credits. This is an ongoing payment made to all generators dependent upon the size of their facility. This payment is in addition to energy sales and other potential revenue streams.**
- **An updated Definitive Feasibility Study is expected to be released in early December incorporating the impact of the above changes together with updated energy price forecasts and reduced capital costs on key equipment items.**

Frontier CEO, Adam Kiley commented: *"Reserve capacity is a unique revenue stream only available to generators in Western Australia. We believe this payment is a key reason why the economics of our Project are stronger in comparison to similar projects on the east coast of Australia.*

We strongly support the proposed changes resulting from the final WEM Investment Certainty Review outcomes. The current changes are a great start, most notably the new floor price (50% of the BRCP), which further strengthens the long-term economics of our Project. It was also pleasing to see such a large increase in the draft determination of the Benchmark Reserve Capacity Price for 2027/28 of $354,000/MW, which together with the introduction of a floor price mechanism, will support project financing discussions."

[1] *https://www.erawa.com.au/cproot/24394/2/BRCP-2025-Draft-Determination-for-publication-clean.PDF*

Change to Benchmark Reserve Capacity Price methodology results in a major price increase

The WA energy market provides diversified revenue streams consisting of:

- Reserve capacity – payments to generators that can supply energy during peak demand periods (Frontier's battery allows it to access this revenue stream);
- Energy sales – in Frontier's case this includes daily energy sales:
  - Direct from solar generation; or
  - From the solar-charged battery;
- Other payments – revenue received from carbon credits (large-scale generation certificates or LGCs) and Frequency Co-optimised Essential System Services (**FCESS**).

Of the above-mentioned payments, the Reserve Capacity Mechanism (**RCM**) is unique to Western Australia.

The RCM is designed to ensure that there is adequate generation capacity available to meet forecast peak electricity demand (ie. on hot summer evenings).

All electricity generation and electricity storage facilities that become certified are allocated capacity credits based on the size of its generation capacity. Once a project receives this payment, and provided they continue to meet their obligations, they will continue to receive this payment in future years, irrespective of the energy source (eg. coal, gas, battery, etc).

The BRCP is set each year, with reference to the cost of adding generation capacity. It was historically based on the cost to build and connect a gas power station, however the BRCP changed this year to the cost to build and connect a 200MW / 800MWh lithium-ion 4-hour battery energy storage system.

This change resulted in the BRCP increasing to $354,000/MW for the 2027/28 capacity year, a 54% increase on the 2026/27 capacity year($230,000/MW). The BRCP is set two years in advance of the energy generation period. Full details of the update in pricing and methodology can be accessed via:

https://www.erawa.com.au/cproot/24394/2/BRCP-2025-Draft-Determination-for-publication-clean.PDF

Figure 1 below shows the structural increase in the 2027/28 BRCP relative to previous BRCPs and final RCPs.

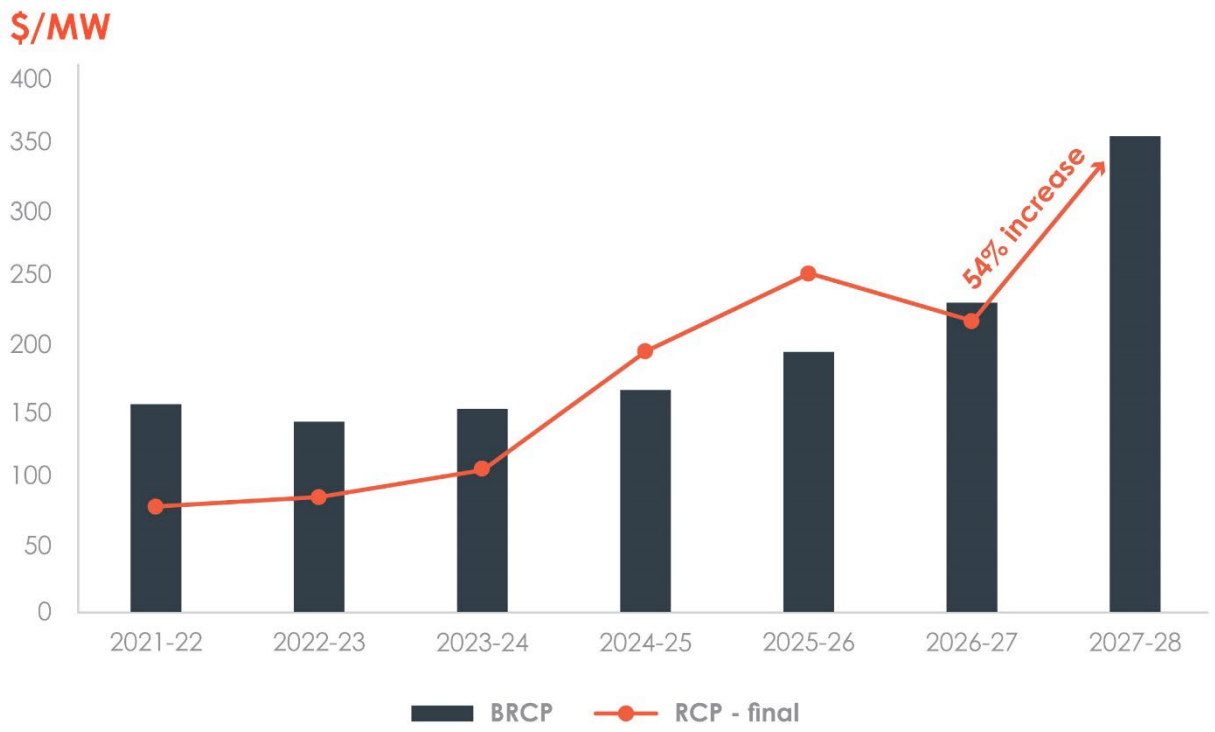

Figure 1: 2027/28 BRCP compared with historical BRCP and final RCP

The final RCP for any energy generation period is set following an assessment of whether there is a surplus or deficit in capacity to meet the peak demand period.

Following the BRCP being set, the Australian Energy Market Operator (**AEMO**) assigns certified reserve capacity status to new projects that satisfy the required criteria set out in the WEM Rules.[2] All existing projects from the previous year automatically qualify.

This determines the capacity supply for the energy generation period, whilst demand for the period is estimated by AEMO in their annual Electricity Statement of Opportunities report.

If the market is forecast to be in deficit during the peak period for that year, there is a premium applied to the BRCP, whilst if there is a surplus, the BRCP is discounted.

[2] See ASX announcement dated 13 August 2024.

Proposed changes to WEM rules set to have a positive long-term impact on the Project's economics through price certainty

Energy Policy WA released the final WEM Investment Certainty Review outcomes and exposure draft WEM Amending Rules to give effect to these outcomes. The Rule Changes will provide a:

- Minimum capacity price floor at 50% of the BRCP, to ensure revenue certainty and sufficiency (as opposed to the current zero price floor); and
- 10-year capacity price guarantee option for firming capacity and new technologies.

The Amending Rules also finalise arrangements for the implementation of the RCM review in time for its commencement in the 2025 Reserve Capacity Cycle. These rules are designed to continue to make the SWIS attractive for new renewable energy and storage investments.

It is likely these changes will have a positive impact on the forecast reserve capacity revenues, and more importantly provide a floor for reserve capacity prices that will enhance the Project's bankability.

For example, based on the draft BRCP ($354,000) and the forecast capacity of the Project (88MW), the minimum reserve capacity payments for the Project would be $15.5 million for the 2027/28 year.

Figure 3 below further shows how the minimum price will operate in practice but also shows how a deficit in peak period capacity can create a large revenue windfall for certified energy generators.

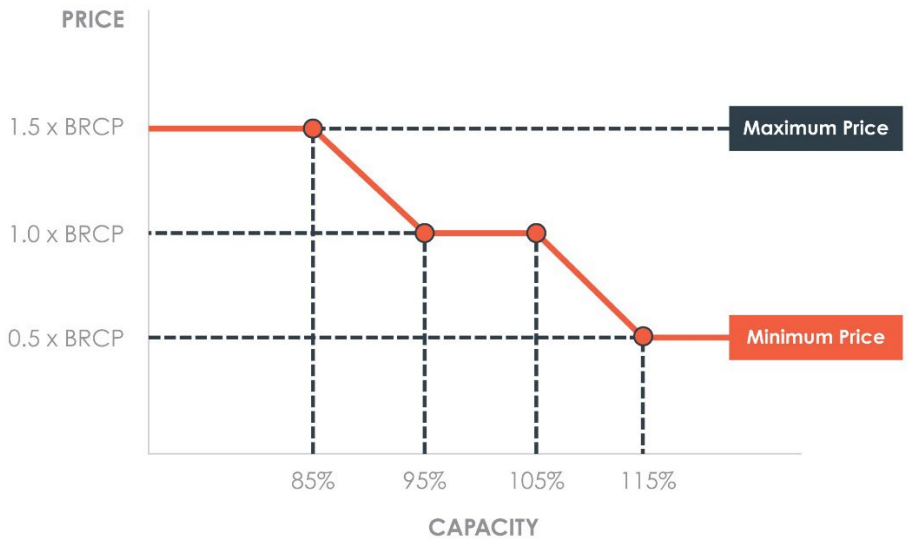

Figure 2: Peak RCP Curve

Aurora's updated reserve capacity forecasts remain conservative relative to the 2027/28 BRCP

Independent analyst, Aurora, has provided updated forecasts for the BRCP and RCP which will be included in the updated DFS. Aurora's updated forecasts are shown in Figure 3 below and appear conservative relative to the current BRCP. This is primarily due to Aurora forecasting a capacity surplus during the peak periods of those years, thereby resulting in a discount to arrive at the final RCP. Figure 3 also highlights the Government's recently proposed minimum RCP relative to the forecast RCP.

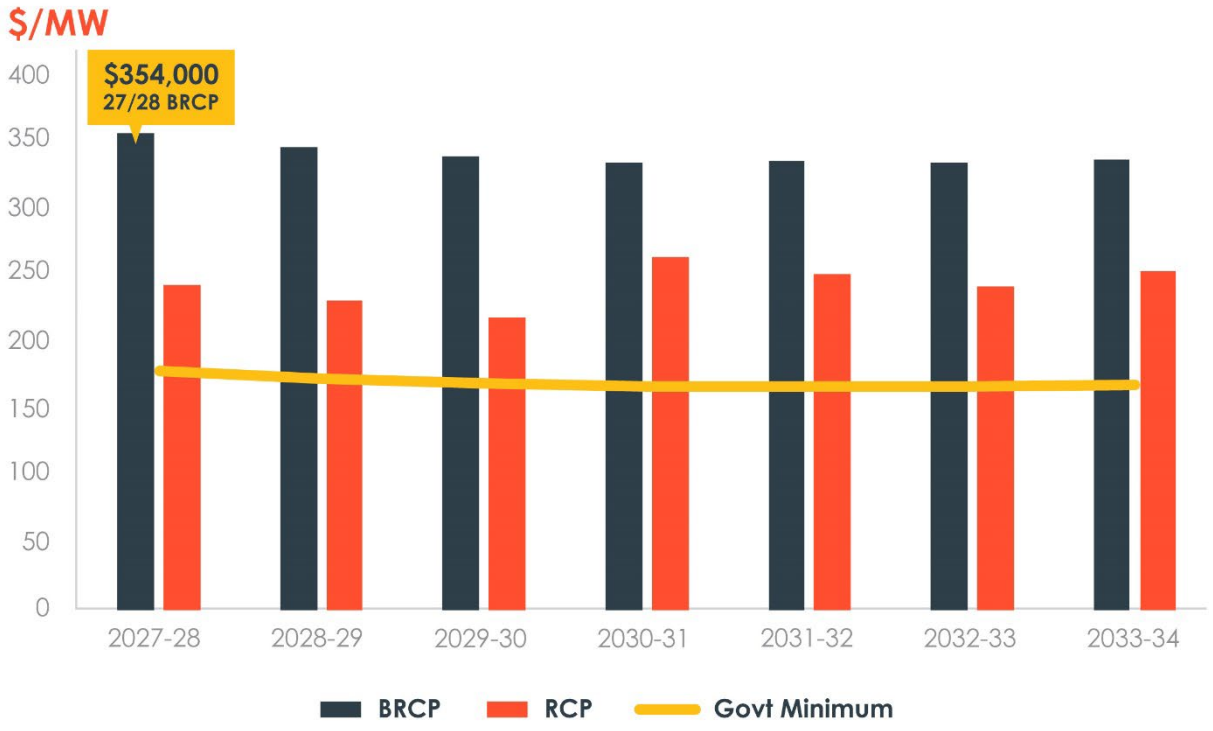

Figure 3: Aurora forecast BRCP and RCP relative to Government's minimum RCP

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

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