

10 December 2015

Attn: Prem Malhi
Australian Energy Market Operator
Level 17, 197 St Georges Tce, Perth WA 6000

Maximum Reserve Capacity Payment
RO027300

Response to public comment

Dear Prem,

Thanks for your email dated 9 December 2015 requesting feedback on comments made by Tesla Corporation ("Tesla") in their public submission dated 4 December 2015 associated with the Maximum Reserve Capacity Payment (MRCP) process. Jacobs draft report (ref RO027300-OSR-RP-001) was issued on 15 October 2015.

As discussed during our phone call, two comments require a response from Jacobs, as follows:

1. **Scaling costs to Benchmark Generator Size (160MW)**

As noted by Tesla, the basis of the capital costs underlying the MRCP calculation is a cost estimate for a 178MW plant which is scaled to align with the required 160MW unit size.

Tesla's comment is:

"Jacobs method assumes that it is possible to scale down the costs for plant equipment, civil works, mechanical and electrical works. While Tesla agrees that some of these costs can be scaled down (e.g. size of turbine blades), many of these costs are fixed and not scalable."

Table 2.1 of Jacobs' report makes clear which costs are treated as fixed and which are treated as scalable. This methodology is consistent with that used for previous years' MRCP calculations.

We confirm our view that this is an appropriate methodology. Generally the costs for the items identified as scalable in Table 2.1 are affected by the size of the generating unit – for example, a larger gas turbine will require larger foundations, pipework, larger water treatment plants, higher rated electrical equipment, etc. This is a commonly used methodology in Jacobs experience and consistent with the overall accuracy requirements of the MRCP calculation.

2. **Exchange Rate Adjustments and FOREX Hedging**

Tesla's comment is:

Jacobs report suggests that a 'Margin' has been included to cover various costs, including financing costs associated with equity raising and contingency costs. It is not apparent to Tesla that FOREX hedging costs are included and suggest that these costs should be included explicitly.

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Jacobs notes that investors will apply different strategies to hedging currency risk and it is not necessarily true that all investors in peaking capacity would fully hedge against potential movements in exchange rates.

Margin 'M' (as described in Section 7 of Jacobs report) includes a cost for raising capital. It does not include potential hedging fees for foreign exchange exposure. While these could be included the cost of hedging contracts will vary depending on the specific contract details and so any figure included in Margin 'M' would be arbitrary.

Jacobs would like to discuss this requirement further with the AEMO. Should the AEMO wish for Jacobs to include for the cost of currency hedging it is suggested that any hedging costs should be incorporated into the capital cost element when negotiating the purchase of imported components rather than be an explicit additional item under the Margin M calculation.

Please let us know if further discussion is required.

Yours sincerely



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