

Our ref: RSC 014
Enquiries: William Street

NOTICE OF CORRECTION - 2009 MAXIMUM RESERVE CAPACITY PRICE FOR THE 2011/12 RESERVE CAPACITY YEAR

The Independent Market Operator (IMO) as part of its obligations under the Market Rules determines the Maximum Reserve Capacity Price (MRCP). This sets the maximum bid that can be made in a Reserve Capacity Auction and is used as the basis to determine an administered Reserve Capacity Price if no auction is required.

The IMO has discovered an error in the use of the direct connection and transmission costs provided by Western Power in the letter dated 6 November 2008¹. The MRCP proposed for the purposes of the Draft Report has been revised to \$185,200.

Further detail of this correction is included in Appendix 1 of this notice.

As a result of this change, the IMO will hold an additional 1 week public consultation period to allow for comments on the new proposed price. This public consultation period will run from the 9 December 2008 to 16 December 2008. Submissions will formally close on:

5:00pm W DST on Tuesday 16 December 2008.

All enquiries should be directed to Troy Forward or William Street by email via imo@imowa.com.au or telephone (08) 9254 4300.

**TROY FORWARD
MANAGER, MARKET ADMINISTRATION AND SYSTEM CAPACITY**

8 December 2008

¹ This letter can be found in the Draft Report: Maximum Reserve Capacity Price Review for the 2011/12 Reserve Capacity Year, Appendix D (Available from <http://www.imowa.com.au>).

APPENDIX 1 – CORRECTION TO PROPOSED 2009 MAXIMUM RESERVE CAPACITY PRICE FOR THE 2011/12 RESERVE CAPACITY YEAR

The IMO has discovered an error in the use of the direct connection and transmission costing provided by Western Power used in the determination of the MRCP for the 2011/12 Reserve Capacity Year.

This has resulted in a change to the direct connection and transmission costing used to calculate the MRCP. The change has affected the sections in the Draft Report as shown in red italics below:

3.3.1 Direct Connection Costs

Direct connection costs refer to the direct connection assets that are required to connect the power station to the physical network. For the purposes of the 2009 MRCP these costs include the transmission line assets connecting the power station to the wider network and the switchyard assets that facilitate the connection between the power station and the transmission system. Western Power compared recent projects of similar size and removed abnormal costs in order to determine a normalised value for the direct connection costs.

Total Direct Connection Costs = A\$ **9.76 M**

3.3.2 Deep Connection Costs

Western Power develops estimates of the deep connection costs as part of the transmission connection capital costs. Deep connection costs or network reinforcement costs are required under certain circumstances in order to maintain power system security and reliability. These costs can vary greatly depending on the nature of the generation being developed, and the peculiarities of the local transmission system that it is connecting to.

Total Deep Connection Costs = A\$ **4.32 M**

3.3.3 Total Transmission Connection Costs

Total Transmission costs are calculated by summing the costs determined for Direct Connection Costs and Deep Connection Costs.

For the purposes of the 2009 MRCP:

TC[2009] = A\$ 14.08 M

These changes have the following effect on TC[2009] and subsequently the MRCP:

Table B1: PRICECAP[2009] and associated parameters

Parameter	Value	Unit
PRICECAP[2009]	\$185,200.00	\$AUD/MW/Year
Where		
ANNUALISED_FIXED_O&M[2009]	\$19,518.78	\$AUD/MW/Year
ANNUALISED_CAP_COST[2009]	\$22,462,916.53	\$AUD/Year
CAP	160	MW
SDF	1.18	N/A

Table B2: ANNUALISED_CAP_COST[2009] and associated parameters

Parameter	Value	Unit
CAP_COST[2009]	\$189,141,217.56	\$AUD
Where		
PC[2009]	\$732,554.42	\$AUD/MW
M	22.50%	%
CAP	160	MW
TC[2009]	\$14,081,877.08	\$AUD
FFC[2009]	\$3,374,305.00	\$AUD
LC[2009]	\$313,500.00	\$AUD
WACC	8.27%	%
Annualisation		
ANNUALISED_CAP_COST[t]	\$22,462,916.53	\$AUD/Year
Where		
CAP_COST[2009]	\$189,141,217.56	\$AUD
WACC	8.27%	%
Term of Finance (Years)	15	Years