
Wholesale Electricity Market Submission to Procedure Change Proposal

PC_2012_08: Changes to Market Procedure for Maximum Reserve Capacity Price

Submitted by

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Submission

Clause 2.10.7 of the Wholesale Electricity Market Amending Rules provides that any person may make a submission for a Procedure Change Proposal by filling in this Procedure Change Submission form.

Submissions for Procedure Changes that relate to the Power System Operation Procedures and IMO Market Procedures should be submitted to:

Independent Market Operator

Attn: Group Manager, Market Development

PO Box 7096

Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

Email: market.development@imowa.com.au

1. Please provide your views on the Procedure Change Proposal, including any objections or suggested revisions:

Proposed changes

The IMO proposes amendments to the Market Procedure for the determination of the Maximum Reserve Capacity Price (MRCP) to:

- Update gamma to align with the practice of other Australian regulators during the past 18 months;
- Incorporate the minimum level or systems required for a Facility to meet the Balancing Facility Requirements;
- Update the list of associated Market Procedures; and
- Update section 1.6.1 to more broadly clarify that the defined terms used in the Electricity Industry Act, Regulations and Market Rules apply for the purposes of the Market Procedure. Alinta notes that this approach has been adopted recently by the IMO for other updates to Market Procedures.

Alinta's views

Alinta supports the IMO's proposed amendments to the Market Procedure. In particular, Alinta supports the revised gamma value of 0.25¹ given this has become accepted regulatory practice, including when determining the Weight Average Cost of Capital (WACC) for electricity generation assets in other markets.

Alinta suggests the following minor and typographical amendments to the Market Procedure to improve its integrity:

- Page 1 – Update cover page to reflect that the proposed revised Market Procedure will be version 6;
- Page 2 – Update the version history to reflect dates of the six updates that have occurred since market start to the Market Procedure for the MRCP (not Loss Factors as

¹ The franking credit value (gamma) is included into the determination of the Weighted Average Cost of Capital (WACC) to ensure that an investor is not taxed twice for their investment (i.e. once at the company level and once at the personal level)

is currently reflected) and refer to the correct procedure change ID, i.e. PC_2012_08 not PC_2012_09.

- Page 15 – Given the comments by the IMO that the ERA’s “Bond-Yield Approach” is considered to be acceptable regulatory practice the footnote on this page may no longer be necessary. The IMO should also review the Market Procedure to assess whether any further changes are required to reflect the adoption of the ERA’s approach. Alinta’s specific views on the adoption of the ERA’s approach will be provided separately in its submission on the MRCP for the 2015/16 Capacity Year.

Additionally, Alinta suggests that it would have been useful to publish a tracked change version of the proposed amended Market Procedure². This would enable interested parties to more easily identify the proposed amendments.

Review of market risk premium and equity beta required

Alinta acknowledges that the IMO is not currently considering the values of the 5 yearly components of the WACC stated in the Market Procedure; however Alinta has significant concerns with the prescribed values of:

- The equity beta (currently 0.83); and
- The Market Risk Premium (currently 6%),

Specific details of Alinta’s concerns with the continued application of these two values when determining the WACC will be provided separately by Alinta in its submission on the MRCP for the 2015/16 Capacity Year given they are not within the scope of this Procedure Change Proposal.

² Refer to step 2.1.4 of the Market Procedure for Procedure Administration