



alintaenergy

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Kate Ryan
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Independent Market Operator
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Dear Kate

DRAFT REPORT: MAXIMUM RESERVE CAPACITY PRICE FOR 2017/18 CAPACITY YEAR

Alinta Energy (**Alinta**) appreciates the opportunity to provide a submission to the Independent Market Operator (**IMO**) on its Draft Report: Maximum Reserve Capacity Price (**MRCP**) for the 2017/18 Capacity Year.

The MRCP is a significant determinant of the Reserve Capacity Price (**RCP**), an administered price that is paid for capacity made available to the IMO. This administered price currently acts not only to signal the new entry of capacity into the market when required, but also to provide a revenue stream to existing capacity providers in the Wholesale Electricity Market (**WEM**) that are not subject to bilateral arrangements.

Broadly Alinta notes its continued concern that the Weighted Average Cost of Capital (**WACC**) used in determining the MRCP is commensurate with funding state network infrastructure development and does not adequately reflect the risks encountered by private investors building generation assets in the WEM. As the majority of the components of the WACC are prescribed 5 yearly values, we note that the upcoming 5 yearly review of the Market Procedure: MRCP¹ will be an important process for ensuring that the WACC components accurately reflect the risks of building generation capacity.

Alinta's specific comments on the IMO's Draft Report follow.

Calculation of the Debt Risk Premium

In calculating the WACC used in determining the draft MRCP, the IMO has engaged Price Waterhouse Coopers (**PWC**) to provide advice on the appropriate Debt Risk Premium (**DRP**). Alinta notes that PWC specifically highlights in its report that the DRP is likely to be underestimated as the average term to maturity of the sampled bonds is only 4.74 years, lower than the IMO's target of 10 years.

Alinta supports the IMO in considering whether it would be appropriate to apply an interpolation to the proposed value of 1.56% to ensure that the DRP reflects bonds with an average term to maturity of 10 years. This would:

- be consistent with the prescribed approach for calculating the nominal risk free rate in the Market Procedure: MRCP; and
- ensure that both components of the nominal return of debt (the DRP and nominal risk free rate) reflect bonds with an estimated 10 year maturity.

It would also ensure greater consistency with recent valuations of the DRP by other regulators. For example the Economic Regulation Authority has recently proposed a DRP of 2.27% in its draft decision on the most recent ATCO access arrangement.

¹ Alinta notes that the last five yearly review processes occurred between 2010 and 2011 and so it is anticipated the next process will begin in late 2015/early 2016.

Should you require any further information relating to Alinta's submission, please do not hesitate to contact me on 08 9486 3009.

Yours sincerely



Fiona Wiseman
Wholesale Regulation Manager