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By email: wa.capacity@aemo.com.au

Draft Report: 2020 Benchmark Reserve Capacity Price (BRCP) for the 2022-23 Capacity Year

The BRCP is a significant determinant of the Reserve Capacity Price (**RCP**), an administered price that is paid for capacity made available to AEMO. 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.

AEMO, applying the methodology from an out of date market procedure¹, has proposed a BRCP of \$142,500 per MW per year for the 2022-23 capacity year, 7.6% lower than the 2021-22 BRCP. This reduction is primarily driven by a Weighted Average Cost of Capital (**WACC**) that is set well below levels that would be applicable for funding peaking generators.

Alinta Energy is extremely concerned that the WACC used is now lower than funding state network infrastructure development and therefore does not adequately reflect the risks encountered by private investors building generation assets in the WEM.

The market rules provide for a 5-yearly review of the market procedure, the last of which occurred between 2010 and 2011. Participants have been consistently raising their concerns with the WACC methodology from 2014, as summarised by AEMO in the draft report, and have recommended that the outstanding 5-yearly review be undertaken without delay.

Alinta Energy does not consider that the proposed BRCP meets:

- WEM objectives a and b (promote the economically efficient supply of electricity and electricity-related services in the SWIS; and facilitate efficient entry of new competitors); or
- the objective of the Reserve Capacity Mechanism (**RCM**) (to provide adequate revenue for peaking facilities and to trigger new investment should it be required).

Further, as outlined in AEMO's draft report, there is evidence that the current methodology results in a manifest error whereby the negative real risk-free rate of return does not reflect Australian market conditions.

Given that the BRCP does not meet the market objectives or the objectives embodied in the RCM and contains a manifest error, Alinta Energy considers that the BRCP should not be approved without, at the very least, an amendment to the real risk-free rate from -1.30% to -0.56% as identified by AEMO in its draft report.

¹ Which has remained unchanged since early 2013.



Clause 2.26 of the market rules outlines that, in deciding to approve or not approve the revised value for the BRCP, the Economic Regulation Authority (**ERA**) must only consider:

- whether the proposed revised value for the BRCP reasonably reflects the application of the method and guiding principles described in the market rules; and
- whether AEMO has carried out an adequate public consultation process.

While Alinta Energy recognises that AEMO has followed the methodology outlined in the market rules and procedure, we contend that it is a significant market failure if the primary investment signal for a market does not reflect the current market conditions; is not sufficient to allow existing capacity providers to cover their long run marginal cost; and would be unlikely to trigger new investment should it be required. Given this, Alinta Energy recommends that the ERA reject the proposed BRCP and direct AEMO (under clause 2.26.2) to recalculate the BRCP on the basis of AEMO's suggested risk-free rate of return of -0.56%.

If you would like to discuss this in more detail, please contact Jacinda Papps on either 08 9486 3009 or Jacinda.papps@alintaenergy.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read "Chris Campbell", written in a cursive style.

Chris Campbell
General Manager, Trading & Portfolio Management