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Attn: Group Manager WA Markets  
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Via email: [wa.capacity@aemo.com.au](mailto:wa.capacity@aemo.com.au)

Dear AEMO

### **Draft Report: 2021 Benchmark Reserve Capacity Price for the 2023-24 Capacity Year**

Synergy welcomes the opportunity to provide feedback on the draft 2021 Benchmark Reserve Capacity Price (**BRCP**) for the 2023-24 Capacity Year (**Draft Report**) in which the Australian Energy Market Operator (**AEMO**) has proposed a 2021 BRCP value of \$136,300 per MW per year, notably the “lowest BRCP calculated since the 2006 BRCP”.

Synergy is cognisant that the proposed BRCP will be increased as a result of applying the revised Weighted Average Cost of Capital (**WACC**) calculations as set out in the BRCP Market Procedure due for commencement on 9 November 2020<sup>1</sup>. However, Synergy does not consider this an adequate reflection of the marginal cost of adding one additional megawatt (**MW**) of Reserve Capacity for the 2023-24 Capacity Year and raises the following concerns over the derivation of escalation factors for AEMO’s consideration.

In the determination of the 2021 BRCP, AEMO has engaged PricewaterhouseCoopers Consulting (Australia) Pty Limited (**PwC**) to determine appropriate cost escalation factors related to the construction of a 160 MW open cycle gas turbine generation facility. PwC’s “proposed escalation factors reflect the dynamics of relevant labour, resources and financial markets, which are affected by both global and macroeconomic factors such as the COVID-19 pandemic, and more specific construction, maintenance and operational trends<sup>2</sup>.”

Synergy challenges whether the assumptions used in setting escalation factor forecasts in such depressed market conditions, particularly considering the economic impact of COVID-19, is appropriate. The 9.2% reduction in escalation factors relative to the previous BRCP, is

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<sup>1</sup> Notice: Market procedure review – Benchmark reserve capacity price: <https://www.erawa.com.au/cproot/21543/2/NOTICE---Publication-of-BRCP-procedure-change-report-and-amended-market-procedure.pdf>

<sup>2</sup> PwC report: Escalation Factors – 2021 Benchmark Reserve Capacity Price (September 2020): [https://aemo.com.au/-/media/files/stakeholder\\_consultation/consultations/wa\\_wem\\_consultation\\_documents/2020/brcp/escalation-factors--2021-benchmark-reserve-capacity-price-september-2020.pdf?la=en](https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/wa_wem_consultation_documents/2020/brcp/escalation-factors--2021-benchmark-reserve-capacity-price-september-2020.pdf?la=en)

largely attributed to the material decrease in steel and copper prices resulting from “reduced international demand caused by COVID-19”. However, border restrictions as a result of COVID-19 has also reshaped logistics and created disruptions in supply chain, leading to scarcity in supply and labour. The sharp decrease in material costs should therefore be partially offset by elevated prices in skilled labour and construction availability, making it questionable whether such a material deterioration in prices, such as the proposed -7.84% observed in 2020-21 in power station costs, will be realised.

**Table 3 Escalation factors by financial year**

Escalation factor	2020-21	2021-22	2022-23	2023-24
<b>Power station capital cost</b>	-7.84%	-3.65%	-0.03%	2.98%

[https://aemo.com.au/-/media/files/stakeholder\\_consultation/consultations/wa\\_wem\\_consultation\\_documents/2020/brcp/2021-brcp-draft-report.pdf?la=en](https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/wa_wem_consultation_documents/2020/brcp/2021-brcp-draft-report.pdf?la=en)

Given the unprecedented impacts COVID-19 has had on the energy industry, Synergy considers whether utilising historical escalation forecasts would be more appropriate. In any event, AEMO is encouraged to review the underlying assumptions that have led to a 9.2% reduction in escalation costs relative to the previous BRCP.

Should you require additional information regarding this submission, please contact Jo-Anne Chan, Senior Regulatory Analyst, at [jo-anne.chan@synergy.net.au](mailto:jo-anne.chan@synergy.net.au).

Yours sincerely



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