



## Landfill Gas and Power

5 January 2012

Mr Greg Ruthven  
Manager System capacity  
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By email: [imo@imowa.com.au](mailto:imo@imowa.com.au)

Dear Greg,

### **SUBMISSION ON THE MRCP DRAFT REPORT FOR 2014-15**

Thank you for the opportunity to make a submission on the draft report for the Maximum Reserve Capacity Price for the 2014/15 Capacity Year.

LGP was a member of the Maximum Reserve Capacity Working Group. We operate four power stations certified at around 10MW in total, but are a net purchaser of some 30MW of capacity for our retail sales, which exceed our production.

LGP supports the draft value for the Maximum Reserve Capacity Price. We consider that the revised Maximum Reserve Capacity Procedure has been properly implemented and is delivering improved results in line with the long term trend.

We support the IMO's interpretation that the 2012/13 and 2013/14 year prices were outliers driven by Western Power's Network Connection Costs being unrepresentative of actual charges. We also note the false investment signal that this has delivered to generation developers and the considerable cost imposed on electricity prices. We welcome the improved transparency and fitness for purpose of the present approach.

LGP also welcomes the inclusion of inlet cooling in the new procedure, and we perceive that this is supported by the several incremental increases to the certified capacities of established plant in the most recent certification round.

While the network connection and inlet cooling adjustments have caused the MRCP to reduce considerably, these were forecast in advance, are in line with expectations, and restore the MRCP to its long term trend.

The adjustment due to the recalculated WACC is, however, unexpected, particularly as the traditional method for determining this parameter was largely endorsed by the process review, and its evolution was expected to be only incremental. We note the concerns of generation developers that the WACC is not representative of their real-world experiences, and we note the IMO's remarks that in respect of the Debt Risk Premium, current Australian regulatory practice is in a state of transition and is awaiting a number of regulatory decisions that will clarify the optimal process for its determination.

We further note that the IMO is required to nominate a WACC utilising a method that is accepted Australian regulatory practice. While we support the IMO's decision to adhere to the traditional approach as encoded in the revised MRCP Procedure, we take the generation developers' concerns as a notice that perhaps the broader paradigm needs to be changed. We consider that the IMO has properly discharged its obligations in this respect, and we would encourage the Economic Regulatory Authority to take a leading role in implementing a sustainable and representative WACC in determining the actual figure to be used.

If you require any further information or comment, please contact our Dr Steve Gould on mobile 0412 508 291.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Graeme Alford', with a large, stylized flourish at the end.

**GRAEME ALFORD BE MBA  
CHIEF EXECUTIVE OFFICER**