

2 December 2016

Australian Energy Market Operator
Attn: Group Manager, Operations and Technology (WA)
PO Box 7096
Cloisters Square
Perth WA 6850

Re: Draft Report: 2017 Benchmark Reserve Capacity Price for the 2019-20 Capacity Year

Thank you for the opportunity to make comment on the above draft report. As the owner and operator of the Kwinana Swift peaking power station the Perth Energy Group has a strong interest in the setting of the annual reserve capacity price. It is by far the most significant factor in the power station's annual revenue. Beyond our parochial interest, however, we would like to take the opportunity to engage regarding this process because it will have a major influence on whether the key reform objective of drawing capacity into the market without Government or Synergy support can be achieved.

We appreciate that the process which AEMO must follow is prescribed within the relevant market Procedure and that AEMO must comply with this. As such we have no comment on the bulk of the calculations undertaken.

We do, however, share your concerns about the calculation of the Weighted Average Cost of Capital which results in a negative real risk free rate. As you note in the paper, this results in the irrational outcome that riskier assets are generating negative returns. We see that as divorced from reality and would encourage AEMO to raise this as a significant matter with the ERA as part of providing this report for their approval.

As a general comment we note that the BRCP has again been lowered, following the general trend over the past five years. This reduction is also occurring at a time when a number of factors are increasing the uncertainty for private investors within the electricity market. To date the Electricity Market Review process has delivered a significant lack of clarity on the reserve capacity auction and on IT requirements for market participation, an inconsistency between the Access regime and the (proposed) constrained dispatch algorithm and a lack of firm commitment for closure of Synergy's excess generation capacity. These factors are all contributing to a heightened perception of sovereign risk in the WA Electricity Market. This is resulting in refinancing for existing plant being extremely challenging and appears to be a major barrier to new generation investment.



Should you have any queries in respect to this submission, or wish to discuss any matters, please do not hesitate to contact Patrick Peake on 04537 209 972 or at p.peake@perthenergy.com.au

Yours faithfully

A handwritten signature in blue ink, appearing to read 'AR', with several loops and flourishes.

Andrew Rowe

Chief Executive Officer