



## Landfill Gas and Power

12 December 2011

Manager Project Access  
ERA  
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By Email: [publicsubmissions@erawa.com.au](mailto:publicsubmissions@erawa.com.au)

Dear Sir / Madam

### **SUBMISSION ON THE AUTHORITY'S DRAFT DETERMINATION ON THE NEW FACILITIES INVESTMENT TEST FOR THE MID WEST ENERGY PROJECT**

Thank you for the opportunity to make a submission on the Authority's draft determination on Western Power's application for a New Facilities Investment Test on the southern section of the Mid West Energy Project (MWEP).

Landfill Gas and Power Pty Ltd (LGP) has been a producer of renewable electricity since 1993 and a boutique electricity retailer since the commencement of the deregulated market. We currently produce some 8MW of landfill gas fuelled intermittent generation and supply some 90 customers operating 370 loads and drawing 45MW. We also operate a 1.3MW diesel-fired Scheduled Generator.

LGP has no direct commercial interest in the MWEP, but we consider it to be an important strategic investment for the community as it will facilitate development of the magnetite industry in the mid west and diversify and extend fuel resources for power generation to the south west network.

LGP supports the Authority's determination on the basis of the facts presented and the application of the applicable rules. However, we consider the financial hurdles used to be onerous and we consider that Western Power's proposal would be accepted if fit-for-purpose criteria were used instead.

In particular, LGP would reiterate our comments made on the Weighted Average Cost of Capital (WACC) in our recent submission in respect of Western Power proposed revisions to the Access Arrangement. We consider that it is not appropriate to use the regulated WACC in assessing the financial hurdles, and that instead an actual cost of capital should be used. This should have regard to the fact that Western Power borrows via the WA Treasury Corporation and thereby enjoys the benefits of the state's AAA credit rating. Furthermore, the project should be considered to be 100% debt financed or, at worst, Western Power's actual gearing level of 89% should be used. We perceive that if this approach was used in setting the Discount Factor, the compound effect on the Net Present Value over the nominated 40 years would far exceed the second-order concerns expressed in the draft determination. At a minimum, we consider that the Authority's new approach to the determination of the debt premium should be used, to much the same effect.

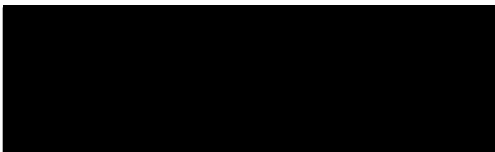
While we consider that such an adjustment is all that is required for the investment to achieve the hurdle, we also consider that the benefits of facilitating access to the block loads and generator fuel resources have not been fully assessed. In particular:

- i) based on the 50<sup>th</sup> percentile median forecasts, the Karara Mine would add 130MW of base load immediately, with a possible further 110MW from the Extension Hill Mine. These loads would be very valuable in ameliorating the need to turn-down baseload generation overnight;
- ii) fuel security would be improved, in addition to the stated solar and wind benefits, by facilitating access to the mid west coal resource, and also to gas delivered at an earlier part of the gas pipeline;
- iii) since the ACIL TASMAN report was written, the IMO has nearly completed installation of the new Balancing and Ancillary Services Market. Amongst other things, this will optimise the dispatch price of facilities and permit more timely pricing responses to the exact amount of wind output. The market will achieve closer alignment between the STEM / Balancing price and the average energy price passed through in bilateral contracts. Given the imminent introduction of the carbon price and the higher gas prices to be paid by Verve after expiry of its legacy contracts, wind and solar generation will more effectively reduce the Load for Scheduled Generation and thereby reduce the “market price”.

In conclusion, LGP congratulates Western Power on its application and consultation process, and supports a successful determination by the Authority.

If you require further information please contact Dr Steve Gould on 0412 508 291.

Yours sincerely



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**CHIEF EXECUTIVE OFFICER**