

From: Richard Harris [mailto:rharris@avivacorp.com.au]
Sent: Tuesday, 19 May 2009 12:30 PM
To: Papps, Jacinda
Cc: Lindsay Reed; Mark Chatfield; Corey Nolan; Stephen Jones; matthew.Bartley; Mark Woodruff; Yogesh.Tiwari@AES.com
Subject: Early Certified Reserve Capacity Rule Change

Hi Jacinda

Aviva's comments in relation to Rule Change **RC_2009_10 Early Certified Reserve Capacity** are as follows:

1. Concern with existing Market Rules

- Aviva supports the proposed Rule change.
- Aviva and its Joint Development Partner, AES are developing the Coolimba Power Project in the Mid West of WA. It is based on a 400-450MW coal-fired base load plant, with the ability to install up to 380MW of gas-fired plant.
- The project is significant in terms of additional installed capacity for the WEM in a fast growing region of the State and in investment terms – over A\$1 billion CAPEX for the coal-fired plant and associated mine and infrastructure.
- Coolimba, like most new generation plant constructed by private Independent Power Producers (IPPs) will be project financed.
- Financing such large investments in the power industry means that funding institutions conduct rigorous due diligence on projects – involving close examination of their technical merit, fuel/equipment supply and off-take contracts, network connections, site access and regulatory framework – in the case of the WEM, the regulatory framework centres on the Reserve Capacity Mechanism of the Market Rules.
- The Certification of Reserve Capacity is designed around the construction of an open cycle gas turbine (OCGT) – notionally a 2-year timeframe. This is arbitrary and was done this way initially for simplicity based on the concept that addition of an OCGT was the default option for the market for new capacity.
- Certification is required for any generation Facility to enable it to operate in the WEM, but also as a prelude to being allocated Capacity Credits in an applicable Capacity Year.
- The current timing for Certification of Reserve Capacity does not take into account firstly longer actual development/construction times for some complex OCGTs and secondly it is certainly grossly inadequate for base load plant, particularly coal-fired power stations whose construction is well in excess of 2 years.
- All that is available for longer lead time plant is Conditional Certification, which although being helpful, does not guarantee either full Certification or allocation of Capacity Credits to the Facility. Certainty is only available if the Facility is considered by the IMO to be *under construction* when bilateral trade declarations are submitted around 10 August each year.
- In a more difficult investment climate as now exists, funding institutions have flagged the need to de-risk projects as much as possible, and for a long lead project like Coolimba, it is clear that at the proposed financing event, under the current Rules, only Conditional Certification would be available to the Facility, despite the fact that the project would be able to satisfy all the requirements for a committed project.
- So, at the time of financial close funding institutions would have to be comfortable with the risk that the Facility may not be allocated Capacity Credits for the applicable Capacity Year. While this has not happened yet, it is a risk that seems unnecessary and may restrict financing of new generation capacity.
- Aviva therefore strongly supports the Rule change to allow Early Certification for new (and only new) Facilities and the accompanying change from projects being judged *under construction* to being *committed*.

- Aviva also supports the retention of Conditional Certification for such projects on the basis that it does flag to potential investors and the market the intention of the developer in regard to the project and signal its progress to achieve Certification.

2. Reasons for urgency

- Coolimba, like a number of other potential long lead generation projects in the WEM, is currently in development and has identified a deficiency in the current Rules for Certifying long lead projects.

3. Specific changes to particular Rules

- Aviva supports the new category of Early Certification and the consequential Rule changes to accommodate the new category. This will provide certainty for investors in long lead generation projects that the Facility, provided it meets the criteria for a *committed* project, will be granted Capacity Credits in the applicable Capacity Year.
- Aviva supports the changing of the category of a project being *under construction* to a project being *committed*.

4. How will the Proposed Rule change better address Market Objectives?

- The proposed Rule change will encourage competition by facilitating efficient entry of new entrant generation.

5. Identifiable costs and benefits

- No additional costs to the new entrant generator or any other market participant are envisaged.
- The Rule change will provide substantial benefits by granting long lead time projects the same certainty for Certification and allocation of Capacity Credits as shorter lead time projects.

Thanks, Richard

Richard Harris
General Manager Development
Aviva Corporation

Suite 4 Level 3, 83-85 The Esplanade, SOUTH PERTH WA 6151 AUS
tel: +618 9367 2344 | mob: +61 0423 760 664 | fax: +618 9367 2355
email: rharris@avivacorp.com.au | web: www.avivacorp.com.au

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