Independent Market Operator

Wholesale Electricity Market
Rule Change Proposal Submission Form

RC_2009_10: Early Certified Capacity

Submitted by

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Date submitted:	24 August 2009

Submission

1. Please provide your views on the proposal, including any objections or suggested revisions.

Aviva supports the original Rule Change proposal and IMO's Draft Rule Change Report as a sensible and targeted approach to addressing a real problem for developers of long lead time generation projects.

Aviva is not convinced that Alinta's "alternative" suggestion addresses the core issue around providing added certainty for financing of long lead projects which by their nature fall outside the normal two-year Capacity Cycle designed for open cycle gas turbines.

This proposal was initiated based on real world experience of project development in this market, especially around more complex projects which are likely to require a development timetable beyond the two-year window built into the current framework.

It allows the project developer to "work backwards" from the point at which the market requires commercial capacity/energy (primarily based around the needs of the off-taker) back to the financing event that immediately precedes Notice to Proceed for the EPC contractor. The Rule Change allows the project developer to secure project approvals, off-take arrangements, EPC supplier and financing with the added certainty of securing future capacity credits in an achievable timeframe.

In a broad sense, all the Rule Change is in effect doing is moving the window of being assigned capacity credits out from two years to an earlier point, which fits in with a realistic timeframe for development of complex long lead projects. But other than simply moving the window for obtaining capacity credit certainty, there are no other concessions for long lead time projects. All the current requirements for being assigned capacity credits will continue to apply, and IMO will still go through its assessment, and then require a security deposit.

In reality, these projects face very harsh scrutiny from financiers because of their high capital cost and longer construction timeframe. Without the proposed Rule change, there is an added level of uncertainty regarding being assigned future capacity credits at the time of Financial Investment Decision and/or financial close and this is at the very point that financiers weigh up whether or not to lend capital to the developers. Addressing that uncertainty through the proposed Rule change is both warranted and good for the market.