

14 May 2009

Mr Troy Forward
Manager Market Administration and System Capacity
Independent Market Operator
Level 3, Governor Stirling Tower
197 St George's Terrace
Perth WA 6000

Dear Troy,

RC_2008_34 – Funding of SRC in the event of capacity credit cancellation

Thank you for organising the recent workshop on Market Rule Change RC_2008_34. We found it very useful to hear directly from the IMO and your consultant Ross Gawler as well as to hear the opinions of other market participants. After listening to the various discussion points it is Perth Energy's conclusion that a new process is required, as recommended by MMA, to discuss the broader issues within the Reserve Capacity Mechanism.

Drawing from the MMA report, we have a number of comments:

- It is hard to identify the full outcomes from the proposed rule change and, as a consequence, it is difficult to adequately assess the proposal against the Market Objectives.
- We note the concerns raised by retailers that they are being forced to fund SRC even though they are not the causer; we also note the concern as to the potentially severe financial impact if SRC costs are to be paid by an individual generator.
- We agree that "causer pays" is a valid principle but note that the *level* of payments elsewhere in the Reserve Capacity Mechanism has been "socialised".
- The frequency of calling SRC needs to be examined in depth. As MMA notes, even though demand does not reach the 1 in 10 year forecast level in each year, the IMO must assume that this may happen in their planning. This means that assessment of any shortfall will always be based on the 1 in 10 year forecast.
- The potential impact on a generator with only a few units is potentially much higher than on Verve Energy because loss of one unit represents a far higher proportion of the fleet.

The discussion at the workshop, and the MMA report, indicates that there is still quite a divergence of opinions on these and other issues. The IMO has indicated that a more detailed review of the Reserve Capacity Mechanism is to be undertaken at some stage. Perth Energy considers that all aspects of SRC should be incorporated into that review. At this point in time, Perth Energy cannot support the rule change as proposed. Perth Energy recommends that the IMO abandon the rule change and convene a full review of the Reserve Capacity Mechanism as soon as possible.

Thank you again for the opportunity to make comments on this proposal. Should you have any queries in respect to our comments please do not hesitate to contact me.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Patrick Peake', written in a cursive style.

Patrick Peake
General Manager Wholesale

A simple, thin horizontal line drawn in black ink, extending across the width of the signature area.