

---

---

## Wholesale Electricity Market – Rule Change Proposal Submission Form

### RC\_2008\_35: Rule Change Notice: Capacity Refund Mechanism – New Generators

---

---

#### Submitted by

<b>Name:</b>	Graeme Alford
<b>Phone:</b>	9475 0144
<b>Fax:</b>	9475 0173
<b>Email:</b>	<a href="mailto:graeme.alford@landfillgas.com.au">graeme.alford@landfillgas.com.au</a>
<b>Organisation:</b>	Landfill Gas & Power Pty Ltd
<b>Address:</b>	PO Box 861 CLOVERDALE WA 6985
<b>Date submitted:</b>	13 February 2009

---

---

#### Submission

---

---

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

LGP participated in the Working Group reviewing this proposed Rule Change and acknowledges the rigorous process, diverse range of participants and their considered contributions under the facilitation of the IMO.

LGP agrees with the proponents assertions that:

1. If the previous Rule Change (that led to the current Refund Table) and associated Working Group had been instigated at the present time, the representation of the Working Group would be different and would better represent new entrant generators.
2. The Refund Table codifies in one application a catch-all for all types of capacity and scenarios and makes no distinction between existing generators and new entrant generators and their very different risk profiles.
3. It is arguable that capacity refund payments from a delayed new generator might not modify that generators behaviour and are therefore of questionable economic efficiency.
4. The current Refund Table requires delayed new entrants to refund the capacity credits for the whole year by April, thereby disincentivising expeditious commencement of delayed projects during the later months, and in particular during winter.

5. Coal-fired generation is subject to higher risk associated with longer development periods than open cycle peaking plant.
6. The Rules have no Force Majeure provision protecting new entrant generators against construction delay.
7. Capacity payments are based on the fixed capital costs of a liquid fired OCGT, and do not recover the fixed costs of a base load generator, which are financed primarily on their long term off-take agreements.
8. The principal incentive (and potential cost) to a base load generator to commission on time is the requirement for it to meet its contracted supply obligations, for which it will have to pay the marginal price of energy being produced in the market if it is late.
9. The current Rules incentivise diesel-fired peaking plant at the potential risk of increasing average prices in the long term.

However, it is LGP's view that generators should be paid by market customers to supply capacity and in the event of not supplying it should not be paid for it. As capacity has a significantly greater value during the Hot Season than at other times, the payment scheme should also incentivise delivery of capacity at this time. While LGP welcomes initiatives to improve the current capacity mechanism, the current mechanism does nonetheless achieve these criteria. It is also necessary to recognize the current mechanism's complexity, the "win-lose" nature of changes on incumbent participants, the potential for unintended outcomes and the perception of regulatory risk arising from frequent rule changes. Further, the previous Rule Change, in which LGP itself did not directly participate, followed an open, transparent and considered process in arriving at its conclusions and is therefore wholly legitimate.

LGP perceives that the impact of the proposed changes are relatively minor for the market as a whole, subjective, and context-dependent and we note that the Working Group could not establish a consensus on whether outcomes would be holistically constructive or even material. In particular, it is not clear whether the savings to the market via reduced penalties would occur, and if they did, whether they would be outweighed by the increased costs of Supplementary Reserve Capacity. We also note that the proposal does not appear to have the active support of a significant new entrant. We further perceive that in financing a project under both the current and proposed provisions, financiers would factor into the working capital requirements the worst-case presumption of total refund of capacity in the first year, resulting in no net difference to the capital cost of the plant or the price to the market. Moreover, the seasonal capping of refunds disincentivises incumbent capacity from returning from unplanned outages towards the end of a season during which the cap has already been achieved.

On this basis, LGP does not support the rule change. We do, however, welcome further improvement of the capacity mechanism and note that the IMO is facilitating review of the commencement window for capacity payments. LGP perceives this to be a constructive means of alleviating development bottlenecks and providing leeway in commencement prior to the impact of higher refunds over the Hot Season.

---

## **2. Please provide an assessment, whether the change will better facilitate the achievement of the Market Objectives**

LGP perceives that the impact of the proposed changes are minor, subjective and context-dependent and we note that the Working Group could not establish a consensus on whether outcomes would be holistically constructive or even material.

We therefore consider that the Market Objectives are not better achieved by means of this rule change.

---

**3. Please indicate if the proposed change will have any implications for your organisation, (for example changes to your IT or business systems) and any costs involved**

LGP would incur no organisational costs as a consequence of adopting the change.

---

**4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed**

LGP would be able to implement this Rule Change immediately.

---