

13 November 2023

Jesse Barker
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
PERTH WA 6000

Via Email

COMMERCIAL IN CONFIDENCE

Dear Ms Barker,

DRAFT DETERMINATION – 2024 BENCHMARK RESERVE CAPACITY PRICE FOR THE 2026/27 CAPACITY YEAR

██████████ appreciates the opportunity to provide feedback on the Economic Regulation Authority's (ERA) draft determination on the Benchmark Reserve Capacity Price (BRCP) for the 2026/2027 year.

██████████ would like to provide the ERA with the following feedback:

1. Escalation factors do not reflect likely market dynamics and prices

We note that a capital cost escalation factor of 1.3% was applied over the three years to 2026/27.

The escalation and de-escalation factors provided by PwC are for bulk commodities and do not account for the specific market dynamics of the gas turbine market. Escalation costs of fabricated equipment varies significantly.

With global decarbonisation accelerating and the scheduled closing of coal fired power generation, there has been a large increase in the demand for turbines worldwide. This has seen the order books for turbine suppliers increase significantly with some having filled their production slots for the next 2 years. Therefore, we believe it is simplistic to assume that OCGT costs will vary only at the rate of steel and copper inputs.

GHD also reference this situation in their report, stating the increase from last year's price: *'The increase is mainly driven by increases in raw materials. However, increase in global demand for generation, including OCGTs, is also a factor.'*¹

These market dynamics, along with the cost pressures observed across the power industry, are unlikely to result in the benign escalation forecast used by the ERA.

2. Forecast foreign exchange rates

██████████ estimates that foreign currency denominated components account for approximately 50-60% of forecast capital costs for the reference OCGT generator.

As such, variance between the foreign exchange rates used in the BRCP calculation and rates at the time of investment decision and procurement can result in significant variance between actual capital costs and those underpinning the BRCP calculation. This creates

¹ GHD Advisory – Power station and associated costs. Benchmark reserve capacity price 2024. 31 August 2023.

uncertainty for proponents and the adequacy of the BRCP to cover the fixed costs of constructing the reference generator.

Given that Capacity Reserve Credit applications are due in July each year, we would recommend that the foreign exchange rates underpinning the BRCP are revised to align with the time that proponents commit to purchasing the imported equipment.

In conclusion, again we welcome this opportunity to provide feedback to the ERA and are happy to discuss any points made in this document.

Yours sincerely,

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