Independent Market Operator

Clause 6.6.3 and Cost Recovery for High Energy Generating Plant

26 February 2008

Clause 6.6.3

- A Market Generator must not, for any Trading Interval, offer prices within its Portfolio Supply Curve that do not reflect the Market Generator's reasonable expectation of the short run marginal cost of generating the relevant electricity when such behaviour relates to market power
- This Clause does not force high energy generating plant into cost under-recovery

High Energy Generating Plant

- High Capital Cost
- Low Operating Cost
  - Low SRMC
  - Low in Dispatch Merit Order

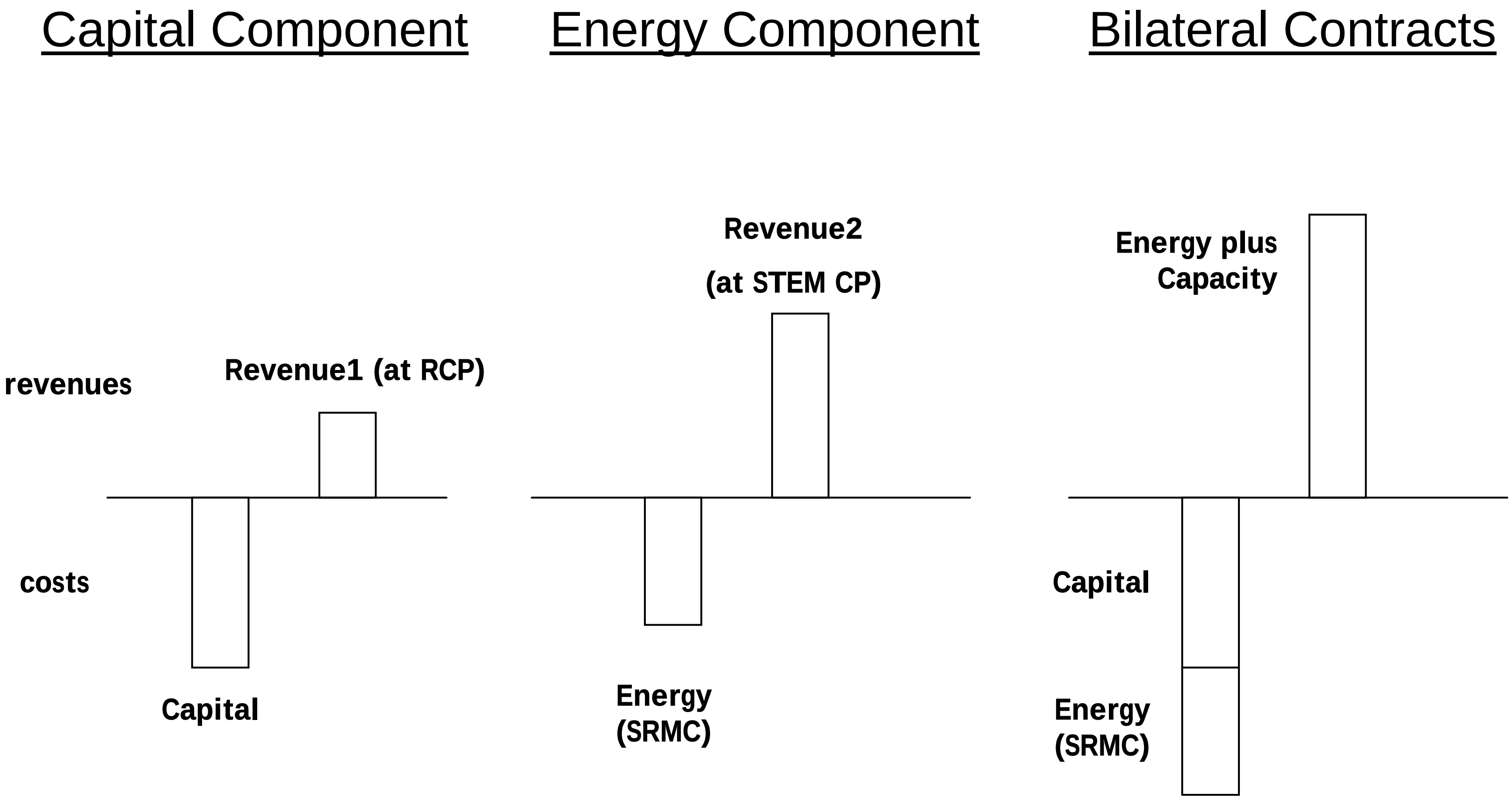
Questions

- Reserve Capacity Price based on OCGT
- STEM Supply Portfolio Prices will be low:
  - cost reflective

- How does High Energy Generating Plant Recover its Costs
- How do Bilateral Contract energy prices compare to STEM offer prices

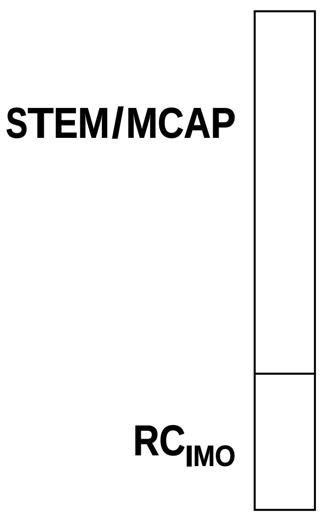
STEM Clearing Price

- Typically set by highest cost (“marginal”) unit cleared
- High Energy Generating plant will be paid the STEM Clearing Price, not its offer price
- STEM Clearing Price normally > High Energy Generating plant SRMC/offers
- Surplus needed to recover higher capital cost
- Bilateral Contract energy prices will tend to be compared with STEM average Clearing Prices not with participant offers
  - (although expected to be lower for high energy generating plant)


Capital Component
Energy Component
Bilateral Contracts
revenues
Revenue1 (at RCP)
costs
Capital
Revenue2
(at STEM CP)
Energy
(SRMC)
Energy plus
Capacity
Capital
Energy
(SRMC)

<u>Option 1</u>

RC_{IMO} + STEM/MCAP



<u>Option 2</u>

Bilateral Contract