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Dear Greg

MAXIMUM RESERVE CAPACITY PRICE

Griffin Power welcomes the opportunity to provide comments on the paper titled "IMO Draft Report Maximum Reserve Capacity Price 2014_15". Griffin Power has concerns on the way that the Transmission Cost Component and the Weighted Average Cost of Capital (WACC) calculations have impacted on the Maximum Reserve Capacity Price (MRCP).

In relation to the Transmission Cost Component, the methodology used by the IMO has resulted in a significant decrease of $31,000/MW in the MRCP. Griffin believes that the Transmission Cost Component is too low and should be increased due to the following reasons:

1. In its calculation of the Transmission Cost Component, Western Power has used audited costs for some of the most recent power station projects. Most of these recent projects have taken opportunistic advantage of spare transmission capacity. It is Griffin's view that the costs used in the study are not representative of future projects as most of these will require some transmission line enhancements.

2. In Western Power's report to the IMO, the following statements were made which reinforce Griffin's view that the Transmission Cost Component is lower than usual and perhaps not representative of usual connection costs :
    a. "Western Power believes that the recent connections have been somewhat opportunistic and the capital contributions have been consequently low"; and'
    b. "It should be noted that future capital contributions which may be required from users in no way relate to the transmission component of the MRCP".

In relation to the WACC calculations, it is Griffin's view that the WACC used is too low as it has been recently distorted by global economic events. This lower WACC has also resulted in the MRCP being reduced by a further $26,000 /MW.

Since the Global Financial Crisis has been ongoing since 2008, we have recently seen Government bond yields fall to historical lows in October 2011. However, if you consider some of the recent events surrounding the European Debt Crisis, it can be seen that a decision taken on 2 November, 2011 by the former Greek Prime Minister, Mr George Papandreou, had a significant impact on financial markets. Mr Papandreou made a decision to hold a referendum on the details of the Greek bailout package, instead of implementing a plan that had been previously negotiated by the Eurozone leaders. This decision sent share markets around the world down nearly 3% within one day. From that day to the end of November 2011, the All Ordinaries Index dropped by approximately 10%, which is technically a crash.

Furthermore, the RBA has since cut interest rates in November 2011 and again in December 2011, citing global financial market instability as a concern for the Australian market. Due to recent events, investors have become more risk averse and this has resulted in a decrease in bond yields and an increase to the market risk premium. It is our view that the WACC calculations use a market risk premium that is too low by about 4% and this has resulted in a market rate of return that is too low. Griffin's view is that the low WACC (and resulting market rate of return) will be insufficient for raising capital.

Yours sincerely

C Martelli

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