perthenergy

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Draft report – 2018 Benchmark Reserve Capacity Price

As a general comment the small changes in most of the costs appear to be fair and reasonable. At present there do not appear to be any significant national or international trends that will substantially impact on the cost of gas turbine plant, substations or transmission lines. Maintenance costs, which are driven largely by labour and metal costs, are unlikely to move outside of the changes determined by GHD. The assumed increase in the cost of diesel fuel used for the first fill of the storage tanks is fair given the current low oil prices.

One area that may warrant review is the cost of insurance though when spread over the cost of the station the influence on the BRCP is small. The insurance within the report includes business interruption insurance whereas the major risk for a peaking station is that a significant incident could require the station to repay up to two years reserve capacity payments. For the notional 160 MW gas turbine this could amount to some $30 million.

The other significant area of concern is the level of the weighted average cost of capital (WACC). AEMO is required to follow a process that is prescribed in a procedure and they, and others, have previously expressed their concern that this procedure does not result in a valid WACC figure. Perth Energy notes, however, that until the procedure, which now rests with Economic Regulation Authority, is modified AEMO is not permitted to determine the WACC by an alternative process.

If you have any questions in respect to this submission please do not hesitate to contact me.

Yours sincerely

Patrick Peake
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