



ENEABBA GAS LIMITED

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1 November 2006

Mr Patrick Peake
Manager, System Capacity
Independent Market Operator
PO Box 7096
CLOISIERS SQUARE WA 6850

Dear Patrick

**RESPONSE TO DRAFT REPORT: MAXIMUM RESERVE CAPACITY PRICE REVIEW
FOR THE 2009/10 RESERVE CAPACITY YEAR**

Eneabba Gas Limited has read the abovementioned draft Report and our response is **enclosed**

Yours sincerely

Mark H Babidge
Managing Director
ENEABBA GAS LIMITED

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2 November 2006

Mr Patrick Peake
Manager, System Capacity
Independent Market Operator
PO Box 7906 Cloisters Square
PERTH WA 6850

Dear Sir

SUBMISSION BY ENEABBA GAS LIMITED ON THE DRAFT REPORT: "MAXIMUM RESERVE CAPACITY REVIEW FOR THE 2009/10 RESERVE CAPACITY YEAR" RELEASED BY THE INDEPENDENT MARKET OPERATOR DATED OCTOBER 2006

1. INTRODUCTION

Eneabba Gas Limited ("Eneabba") welcomes the opportunity to comment on the Draft report released by the Western Australian Independent Market Operator "Maximum Reserve Capacity Price Review for the 2009/10 Reserve Capacity Year ("the Report").

Eneabba is a new entrant in the Western Australian energy scene. Eneabba has to date :

- purchased a power station site 8 kilometres east of Dongara (known as Centauri 1) for the purposes of constructing a power station;
- entered into a conditional contract with GE to purchase and install gas turbines at Centauri 1;
- obtained all EPA and local shire approvals to allow construction of the power station to proceed;
- acquired sufficient gas and gas transport arrangements for commissioning of the power station;
- made significant progress towards resolving interconnection issues with Western Power

These activities demonstrate Eneabba's commitment to installing new capacity as part of the Western Australian electricity market. Eneabba maintains a keen interest in the outcome of the review process for establishing the Capacity Reserve Price for new Reserve Capacity. This process is important in providing critical data as part of the matrix of information necessary to make important investment decisions.

2. RESERVE CAPACITY PRICING

Eneabba notes that the 2007 Maximum Reserve Capacity Price is proposed to be set at \$129,900 per MW per year for the 2009 year. This price compares to previous calculations and "Ministerial" directions released. With the following pricing:

2007/08	\$150,000/MW
2008/09	\$122,500/MW
2008/09 (rev)	\$129,900/MW

Under the rules this is meant that the annual payment available has fluctuated from \$127,500/MW to as low as \$94,375/MW

Eneabba uses the pricing information released by the IMO and previously by "Ministerial direction" inter alia, as a basis of investment decision making. Investing in a power station plant carries many risks namely construction risk, technology risk, market risk and regulatory risk to name a few. Clearly, power station proponents seek to minimize all of these risks where possible and where they can influence them. Eneabba is looking to invest between \$130 million - \$160 million on the power plant and associated land in Western Australia. It is disturbing to note that a potentially important revenue stream in the form of Reserve Capacity Payments can have such a wide variation as outlined above. Investment decision making becomes extremely difficult in such an uncertain and volatile environment.

3. DRAFT REPORT

The overriding concern of Eneabba with respect to the Report is the lack of detail provided in the report to support the conclusions reached. This ordinarily may not be of a concern but when coupled with the significant variation as outlined above the reader of the Report is unable to undertake their own analysis to confirm any of the conclusions reached in the Report.

As a minimum a format that covers the following headings, with sufficient information to convey confidence to the reader that the analysis is both complete in capturing all costs as well as providing detail on costs, is considered necessary.

Suggested areas that need to be provided in the Report are outlined below:

Power Station Site:

- Where is the site located regional or metropolitan?
- Are site acquisition and preparation costs included?
- Are EPA and local shire approval costs included?

Power station Costs:

- Are the total costs of an open cycle plant included?
- Do the 'total costs' include all ancillary plant, such as water treatment, oil recovery, etc?
- Are the construction costs based on today's high priced construction?
- Market?
- is the cost of acquiring and installing fuel tanks as outlined in page 5 of the Report included in the Reserve Capacity Price of \$129,900.

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These issues have sufficient detail for analysis purposes.

Financing Costs

Eneabba found this area particularly poorly covered. Financing costs have a significant impact on the pricing of the Reserve Capacity Price, yet only two short paragraphs were dedicated to this important issue. A review of regulation determinations in the Eastern States reveal that considerable attention is given to this area. As a minimum the IMO should provide a table with the key parameters as outlined below to allow for analysis:

Table 1 Cost of Capital Parameters

1	Nominal risk-free interest rate	7.	Imputation credit value
2	Expected inflation rate	8.	Asset beta
3	Debt margin	9.	Debt beta
4	Cost of debt = 1+3	10	Nominal post-tax return on equity
5	Maximum risk premium	11	Post tax nominal WACC
6	Ratio of Debt to equity	12	Pre-tax real WACC.

The information contained in the table reflects the cost of capital given the nature of a company operating in the electricity industry with its attendant financial risks. A review of the information, if contained in the Report, can then be made to see whether the data is considered reasonable

4. CONCLUSION

Eneabba maintains that information provided in the Report should be of sufficient detail to allow for a detailed analysis by recipients of the Report. As subsequent Reports are released comparison on variations on key areas can then be made to determine what has caused any variation in the Capacity Price

Eneabba is concerned at the wide fluctuations in the Reserve Capacity Price over such a relatively short time period and the inability to analyse why this has occurred. The process of review should be transparent for all participants and the current report is lacking in this regard. These fluctuations coupled with changes to the market rules is creating regulatory uncertainty and risk to potential investors in the market

Finally, as a result of many of the issues outlined above not being contained in the report, it is not possible for Eneabba to provide a more detailed response to the Report

Yours faithfully

A handwritten signature in black ink, appearing to read 'Peter Oates', written in a cursive style.

Peter Oates
Director

ENEABBA GAS LIMITED