

# Community Electricity

## Submission on the Draft Report: Maximum Reserve Capacity Price for the 2015/16 Capacity Year

### Standing

Community Electricity is a member of the Independent Market Operator's Market Advisory Committee as a Market Customer representative. It was also a member of the former Maximum Reserve Capacity Working Group which framed the Market Procedure: Maximum Reserve Capacity.

Community has separately submitted support of Procedure Change Proposal PC\_2012\_08 which proposes to reset the value of the imputation credit constant to 0.25 from the current setting of 0.5.

Community is also a member of the Economic Regulation Authority's Technical Rules Committee.

### Submission

Community supports the Draft Report: Maximum Reserve Capacity Price for the 2015/16 Capacity Year.

We expressly support:

- The manner in which the Market Procedure: Maximum Reserve Capacity Price has been applied;
- Application of the ERA's Bond Yield approach to determining the Debt Risk Premium component of the Weighted Average Cost of Capital;
- Resetting the imputation credit ('gamma') value to 0.25 in line with current Australian regulatory practice;
- Using the approved Network Access Price List in determining the network access charges, including any adjustments as necessary.

### Cost of Debt

We note the discussion of the relative merits of assessing the Weighted Average Cost of Capital via the cost of bank debt rather than through the corporate bond market. We support the continued use of the corporate bond approach on the grounds that it is the role of the IMO to follow established regulatory practice on such matters and no Australian regulator has used the cost of bank debt approach. It should also be remembered that:

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- the IMO's determination of the Maximum Reserve Capacity Price is subject to review by the ERA;
- the Maximum Reserve Capacity Price is an estimate of the marginal cost of entry of additional Reserve Capacity in the applicable Capacity Year. While it is based on a benchmark power station, such a station probably does not exist in practice in respect of all elements and nuances of the benchmark. It is therefore necessary to assess the integrated package represented by the benchmark, and it is generally not appropriate to isolate for review particular aspects of it on a stand-alone basis without consideration of the interrelatedness with other aspects. [That said, we consider resetting the 'gamma' to be an exception as this is a supposedly fixed parameter in an accounting equation.]

## Historical variation of the MRCP

We note and support the IMO's commentary to the effect that the Maximum Reserve Capacity Price has been relatively stable since market commencement with the exception of two consecutive extremes caused by a sub-optimal procedure for determining transmission connection costs, which has now been superseded. We consider that the two extreme valuations have created the erroneous perception of a substantial fall in the Maximum Reserve Capacity Price in recent years, while it was actually the former substantial increase that was erroneous. On this basis, we support the pricing outcome of the present review as being appropriately contiguous with historical valuations, especially having regard to matters such as bond yields and the value of the Australian dollar.

## Contact

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