Draft Rule Change Report RC_2009_10
Early Certified Reserve Capacity

Submitted by

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Submission

1. Please provide your views on the proposal, including any objections or suggested revisions

LGP has reviewed the IMO's Draft Rule Change Report and supports the IMO's analysis and decision to proceed with the Rule Change.

LGP also attended the Public Forum to further discuss this matter. We note the submissions by Alinta, Griffin Energy, Aviva and commentary by the IMO on its discussions with ANZ bank, and find no reason to change our position.

LGP considers that participation of capital intensive generation delivering low average cost power is a principal strategy for lowering the cost of electricity to consumers, which is at the core of the Market Objectives. We acknowledge that such projects, and in particular baseload, may have lead times in excess of the development periods contemplated by the Reserve Capacity Mechanism to the point that financiers may have to commit significant capital to a project before the allocation of capacity credits is certain. We consider that this exposes the financier to considerable risk during the commitment of the initial capital and the allocation of credits, which period could be 2 to 3 years. While we acknowledge Alinta's assessment of the risk within the current and proposed rules, we consider that from the financier's perspective, the principal risk is regulatory - that the rules might change during the period of exposure. This is especially of concern within a political context in which the Western Australian government appears willing to jeopardise the wholesale electricity market without public consultation by remerging Verve Energy and Synergy. There is additionally the nuisance factor that the financier would have to fully understand the Market Rules and monitor any changes to them during the period of exposure. LGP considers it to be far more effective to allocate capacity credits at the time of financial commitment and on that basis supports the rule change.