

26 August 2020

By email to RCP.Secretariat@rcpwa.com.au

Benchmark Reserve Capacity Price

On behalf of Perth Energy I would like to reiterate two comments that I raised at the recent meeting in respect to the propose review of the benchmark reserve capacity price (BRCP).

Firstly, Perth Energy supports limiting the review to the weighted average cost of capital (WACC). We support this because it will be very difficult to assess the other major constituents of the BRCP until the current market transformation is largely complete and more information is available. Also, we agree that the most recently developed WACC does not appear to be appropriate.

Secondly, we wish to stress that the reserve capacity market is perceived by potential investors as carrying substantial risk that cannot be hedged. The process for developing the reserve capacity price has been changed unilaterally on several occasions so cannot be considered as a stable process. Examples of these changes include the removal of deep transmission connection costs and several changes to the relationship between the reserve capacity price and the level of excess capacity. The WACC needs to incorporate an appropriate margin to recognise this risk if the reserve capacity mechanism is to fulfil its basic role of encouraging adequate investment in generation. The market currently has excess capacity in place but as older plants are retired the RCM may be required to encourage new investment to ensure system reliability.

Perth Energy is happy for this submission to be published. Also, if there are any further questions please do not hesitate to contact me at p.peake@perthenergy.com.au or on 0437 209 972.

Yours faithfully



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