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Economic Regulation Authority  
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### **Review of market procedure: benchmark reserve capacity price**

The Australian Energy Council (the “**AEC**”) welcomes the opportunity to provide feedback on the benchmark reserve capacity price (“**BRCP**”) market procedure.

The AEC is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC supports the recommendation from the BRCP working group to proceed with a fast-tracked procedure change proposal concentrating only on WACC parameters.

A review of the WACC components is timely. A range of factors have now led to perverse outcomes, such as the WACC for funding state network infrastructure development being higher than what would be applicable for funding peaking generators in the Wholesale Electricity Market (“**WEM**”). This has resulted in the current WACC being inappropriate as it does not adequately reflect the risks encountered by private investors building generation assets in the WEM and as such, may not meet the objective of the Reserve Capacity Mechanism (which is to provide adequate revenue for peaking facilities and to trigger new investment should it be required).

The AEC’s view is that the WACC should better reflect the risks currently facing generators. These include exposure to a reserve capacity price that has been unilaterally changed on several occasions, increasingly volatile demand levels, greater price fluctuations and the removal of the 10-year special price arrangement for new entrants. To achieve a more appropriate WACC, a review of the equity beta and inflation components will be especially useful.

The AEC looks forward to participating in the formal consultation process for the BRCP market procedure.

Any questions about our feedback should be addressed to Graham Pearson, Western Australia Policy Adviser by email to [graham.pearson@energycouncil.com.au](mailto:graham.pearson@energycouncil.com.au) or by telephone on 0466 631 776.

Yours sincerely,

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