



1 September 2020

Economic Regulation Authority

Transmission via email to: RCP.Secretariat@rcpwa.com.au.

REVIEW OF MARKET PROCEDURE: BENCHMARK RESERVE CAPACITY PRICE

Alinta Energy appreciates opportunity to provide feedback into the ERA's Review of the Benchmark Reserve Capacity Price Market Procedure and recognises the ERA's work to engage stakeholders on its preliminary analysis.

Alinta Energy supports the ERA concentrating its review on the WACC parameters as it is strongly concerned that the current WACC significantly understates the risks faced by generation investors in the SWIS. This WACC of 3.51% appears to be a manifest error as it is lower than the WACC applied to Western Power's regulated asset base (3.95%), even though returns on network investment are fixed, and returns on generation investment are exposed to increasingly volatile market forces.

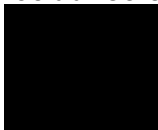
Alinta Energy recognises that this understatement can be rectified via changes to the equity beta, credit rating, and gearing ratio, considering these parameters are designed to capture the risks facing new generation projects. Alinta Energy notes that the following market developments indicate that the market is and will continue to be more volatile than it was when these parameters were initially set:

- As a result of the removal of the long-term special price arrangements, there is no longer an option to guarantee revenue for a 10-year period;
- The RCM demand curve has been continuously reformed and made steeper;
- Increasing intermittent generation has increased market volatility; and
- There have been continuous market reform programs, including the planned transition to constrained access, which will introduce further uncertainty.

Alinta Energy also acknowledges that the overstated inflation rate used in the most recent determination contributed to the understated WACC. Alinta Energy supports the ERA's further analysis of options to rectify this issue, including using a nominal WACC or reforming the method to forecast inflation.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this further, please contact Oscar Carlberg at oscar.carlberg@alintaenergy.com.au or on 0409 501 570.

Yours sincerely



Oscar Carlberg

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