



# PUBLICATION

## Maximum Reserve Capacity Price for the 2013/14 Reserve Capacity Year

### DETERMINATION

The Economic Regulation Authority has approved the proposed Maximum Reserve Capacity Price (**MRCP**) of \$240,600 per MW per year as recommended by the Independent Market Operator (**IMO**) in its final report into the MRCP review for the 2013/14 Reserve Capacity Year, which was received by the Authority on 20 January 2011.

The approved revised MRCP will be effective from 1 October 2013 to 1 October 2014.

This approval is granted under clause 2.26.1 of the *Wholesale Electricity Market Rules (Market Rules)* on the basis that:

- the revised value for the MRCP reasonably reflect the application of the method and guiding principles described in clause 4.16 of the market rules; and
- the IMO has carried out adequate public consultation.

The IMO's final report was submitted to the Authority accompanied by four public submissions received in response to the IMO's draft report; reports by consultants Sinclair Knight Merz, Gutteridge Haskins and Davey, and the Allen Consulting Group; assessments by Landgate and Western Power; and the IMO's spreadsheet model used to calculate the proposed MRCP.

The Authority has reviewed the final report and material provided by the IMO, assessed the proposed MRCP and determined that the requirements of clause 2.26.1 of the Market Rules have been satisfied.

While the Authority is of the view that the IMO has adopted a value for the Debt Risk Premium (a parameter used in determining the Weighted Average Cost of Capital) that reflects an appropriate application of the prescribed method, it is not satisfied that the resulting value reflects the current cost of funds in the market.

The Authority has concerns with the method prescribed in MRCP Market Procedure for deriving the Debt Risk Premium, and is of the view that this matter should be considered by the IMO as part of the MRCP Working Group's review of the methodology and process for determining the MRCP under clause 4.16.9 of the Market Rules.

A copy of the Authority's decision setting out its reasons is available on the Authority's [website](#).

For further information contact:

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28 January 2011