

11 December 2009



Landfill Gas and Power

Mr Troy Forward
Manager Market Development & System Capacity
Independent Market Operator
PO Box 7096
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Dear Troy

SUBMISSION ON DRAFT REPORT: MAXIMUM RESERVE CAPACITY PRICE REVIEW FOR THE 2012/13 RESERVE CAPACITY YEAR

Thank you for the opportunity to comment on the review of the maximum reserve capacity price.

LGP perceives that the process has been properly conducted. However, we wish to place on record our support for an urgent review of the capacity pricing mechanism as we consider the likely pricing outcome in the next capacity cycle to be unrealistically high. Applying the same ratios as they apply at present, the 2012/13 capacity price would be \$185,800 per MW per year, an increase of 41% over the 2011/12 value and an increase of 71% over the current value. Further, assuming that the generation reserve 'uplift ratio' of 1.45 continues to apply, capacity will cost retailers \$269,400 per MW per year.

We note from the report that the Transmission Connection Cost has increased by some 500% over the year in question, to \$51 million, being 43% of the capital cost of \$117 million for the generator. Further, we understand that the approved network prices were used for this assessment, which will presumably be impacted by the one third increase announced by the ERA.

Noting that capacity auctions have so far not been held since market commencement, and that the maximum capacity price therefore drives an administrated price, we question the legitimacy of having such large transmission costs for new plant increase the overall market capacity cost; we estimate the capacity cost due to the transmission component to be some \$230 million per year. Further we perceive that such large transmission costs call into the question the suitability of basing the calculation on a 160MW liquid fired generator with a debt equity ratio of 40:60; we perceive that the transmission costs would have to be funded by equity as debt cannot be secured on them.

Once again, LGP finds no fault in the process of determining the proposed maximum reserve capacity price, but we wish to flag the consequences for the market and advocate an urgent review of the capacity pricing mechanism.

Yours sincerely

GRAEME ALFORD
CHIEF EXECUTIVE OFFICER