

Independent Market Operator

MRCPWG

Agenda

Meeting No.	3
Location:	IMO Board Room, Level 3, Governor Stirling Tower, 197 St Georges Terrace, Perth
Date:	Friday 2 July 2010
Time:	Commencing at 2.00 to 4.00pm

Item	Subject	Responsible	Time
1.	WELCOME AND APOLOGIES / ATTENDANCE	Chair	5 min
2.	MINUTES OF PREVIOUS MEETING	Chair	5 min

	REVIEW OF MRCP COMPONENTS	IMO	60 min
6.	GENERAL BUSINESS	IMO	5 min

7. NEXT MEETING

Friday 17 August 2010 (3:00-5:00pm)

Chair 5 min

Item	Subject	Action
	<p>locations. The Chair noted that reasonable costs need to be captured and stated that construction costs do not currently provide any scope for the inclusions of difficult build sites.</p> <p>The Chair noted that if the MRCP is to be determined across a range of locations then a consultant may be required to provide a spread of the complexity of the other components, e.g.</p>	

Item

Item	Subject	Action
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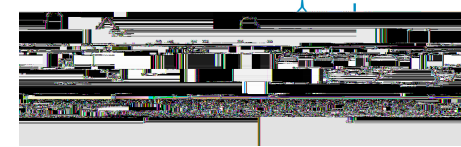
Item	Subject	Action
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on the basis that an auction has been held be provided back to the MAC for consideration in the Market Rules Evolution Plan.

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Agenda Item 3: MRCPWG - Action Points

Legend:

Unshaded	Unshaded action points are still being progressed.
Shaded	Shaded action points are actions that have been completed

#	Meeting Arising	Responsibility	Action	Status/Progress
5	Meeting 1	IMO	The IMO to amend Market Procedure for determining the MRCP to reinstate the 2009 MRCP Major ()125.964(r)1.71325()0.99408(()125.964(r)1.71325()0.994085()0.)10.5472(M)13.5256(a)1.9894b(e.5472(M894(d)1.98911.88 TL 08(h)1.(M)95234034o1.9()10fO)13.5313((M)9523403494(j)8.83e)278J 11.88 TL (d)13.5313(4	

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#	Meeting Arising	Responsibility	Action	Status/Progress
10	Meeting 2	IMO		

Meeting No 3: 2 July 2010

#	Meeting Arising	Responsibility	Action	Status/Progress
14	Meeting 2	Working Group members	Working Group members to consider out of session if consultancy work is required on any further components identified in Agenda Item 5.	



in the context of the Western Australian Wholesale Electricity Market and be able to be followed by Western Power in calculating an estimate of deep connection charges.

The IMO anticipates that the outcomes of this work will feed into its wider five year review of the determination of the MRCP.

SCOPE OF WORK

The IMO is seeking the services of a Consultant with a strong knowledge of the Western Australian regulatory environment to assist the IMO in determining an appropriate deep connection cost estimate calculation. The final calculation will be conducted by Western Power.



Agenda Item 4b: Scope of Works: Calculation Methodology to be applied in determining the Weighted Average Cost of Capital

BACKGROUND

The Wholesale Electricity Market Rules (Market Rules)¹ and the Market Procedure for: Determination of the Maximum Reserve Capacity Price (MRCP)² (the Market Procedure) requires the IMO to calculate a MRCP each year. The MRCP sets the maximum offer that can be made in a Reserve Capacity Auction and is used as the basis for the determination of an administered Reserve Capacity Price if no auction is required.

The purpose of the MRCP is to incentivise an investor to propose to build a 160 MW Open

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- Appropriate WACC equation: The review will need to recommend an appropriate WACC equation.
- Application of the WACC: The Consultant is to consider how the WACC should be applied to the cost of building the OCGT. Currently the WACC is applied to the entire cost of the project two years before the project is due to be completed.

As a deliverable the Consultant should provide to the IMO an appropriate application equation to be included in the Market Procedure.

- Parameters to be included in the WACC: The review will need to include:
 - Which parameters should be included as major and minor components and also if two categories (major and minor) are sufficient to described the possible scenarios which may impact the WACC;
 - For each of the components:
 - Detailed analysis of the minor components to be included in the WACC. In conducting this assessment the Consultant will be required to analyse other parameters included by the IMO in the calculation of the MRCP, especially in regards to the calculation of the margin M parameter. The Consultant will be expected to make a recommendation on whether the information is more appropriate to be calculated as part of the WACC or as part of Margin M.
 - Which major components to include in the calculation of WACC;
 - The methodology to calculate each component, where this methodology must be repeatable and have alternative positions if some data is potentially unavailable;
 - The assumptions underlying the calculation of each parameter;
 - When each component should be updated; this must include whether it is appropriate to update parameters between the draft and final report (e.g. for the minor components) and also if the parameter should be updated on an annual basis or on a less regular basis. If a less regular basis is recommended, the Consultant will be expected to make a recommendation of how often the parameter should be updated and under what, if any, circumstances the values should be updated; and
 - A recommendation detailing if any of the parameters should include a risk margin to incorporate the risk that no Reserve Capacity Auction will be held.

The key deliverable for this part of the project will be a report comprising the following:

1. A section which plainly states the recommendations regarding:



- each parameter;
- the calculation methodology for each parameter;
- when each parameter should be updated; and
- the assumptions inherent in each calculation,

This section of the report will need to be worded such that it can either be incorporated directly into the Market Procedure or be used as a subsidiary document to the Market Procedure;

2. A section detailing the analysis undertaken in determining the recommendations (as presented above); and
 3. A section detailing the results of the calculation.
- Any other considerations the Consultant deems should be taken into account.



Agenda Item 5: Review of MRCP Components

