

IWEA Response to SEM 09-023 - Joint Regulatory Authority Consultation on Fixed Cost of a Best New Entrant Peaking Plant Calculation Methodology

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Overview:

IWEA believes that this consultation should address and eliminate the current degree of volatility in the level and apportionment of the capacity payment mechanism. The year on year variability in the size and delivery of the capacity payment pot is yet another cost that must be undertaken by developers as banks seek to increase margins to account for uncontrollable risk. Developers need predictability and certainty when projecting future revenue stream in order to make informed investment decisions and the current arrangements for calculating the CPM frustrate this process.

Calculation Methodology

A number of different elements contribute to increased risk around the BNE calculation methodology. Local cost variations and the variability of international equipment prices have the most significant impact while the lack of a uniform regulatory interpretation of the scope of the “Best” new entrant across technologies increases uncertainty. The future definition and subsequent calculation of ancillary service values together with the treatment of infra-marginal rents will also have significant impacts.

Capacity Requirement

The lack of transparency surrounding the calculation of the capacity requirement further adds to CPM uncertainty. Plant availability predictions should accurately reflect current plant performance and result in an adequate capacity pot. IWEA is concerned that the current methodology does not properly reflect the full requirements of the power system.

Volatility and Complexity in the Distribution of the Capacity pot

The set of complex distribution calculations used to distribute generator payments increase the volatility of payments to generators. The fixed component of the capacity pot distribution should be increased and the variable components reduced. This would provide a stronger incentive on generators to meet anticipated capacity shortfalls.