



# **NIE ENERGY SUPPLY**

**RESPONSE TO “FIXED COST OF A BEST NEW ENTRANT  
PEAKING PLANT CALCULATION METHODOLOGY”  
CONSULTATION PAPER**

NIE Energy Supply (NIEES) welcomes the circulation of this paper by the Regulatory Authorities and is pleased to have the opportunity to comment on it. We have reviewed the consultation paper and have responded to the relevant points below.

NIEES is conscious of the impact of volatility in capacity charges and payments on customers and also on existing and prospective generators. NIEES is therefore in support of smoothing the impact of the Best New Entrant Fixed Cost (BNEFC) in order to reduce the volatility of the capacity payments pot for all parties. In this regard, NIEES feels that option 3 (“Calculate BNEFC annually and apply smoothing effect”) would offer several benefits over the other options listed.

Option 3 would facilitate continuity of the annual calculation of the BNEFC value using the most accurate information available, thereby accurately reflecting any changing fundamentals over time. Whilst doing so, it would also provide stability to the capacity pot by smoothing the BNEFC calculation over a period of time, but without distorting the total amount finally paid out.

Several of the other options to reduce volatility suggested in the paper would fix constituent elements of the BNEFC calculation, or else fix the total BNEFC itself for a number of years. Whilst this would offer stability of the BNEFC in volatile times, it would be doing so by reflecting a difference between the true underlying prices and the fixed variables used in the calculation, potentially resulting in an outcome which is difficult to defend.

In regard to the timeframe over which the smoothing proposed by Option 3 should occur, NIEES would be of the view that three years would seem to strike the right balance between offering stability of price and reflecting the underlying fundamentals in capacity payments. Whilst either a simple or arithmetic average could be considered for the purposes of averaging, the benefits of smoothing costs reduces as the calculation approaches the existing one year BNEFC calculation. Any weighting from a simple average should therefore be modest to retain the benefits of smoothing.

NIEES would support the implementation of Option 3 in preference to applying the smoothing on a forward basis. NIEES does however agree with the Regulatory Authorities in that a change of method should not reflect the high commodity prices of recent years for a second time. Consequently, NIEES would support the suggested “Legacy” adjustment in the smoothing calculation, and would suggest the effect of the “Legacy” adjustment also be spread over a three year period.

Whilst NIEES has indicated its support for Option 3, it would also support a more thorough analysis of Option 6 – a fixed price for new entrants (or a hybrid of it).