Response to

Single Electricity Market Committee Consultation

Fixed Cost of a Best New Entrant Peaking Plant
for the Calendar Year 2011
AIP/SEM/10/034

prepared by

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for and on behalf of

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Premier Power Limited welcomes the opportunity to offer its comments on the above consultation which are provided in the following sections.

1. Proposed Technology: Alstom GT13E2

In deriving the BNE technology data PPL would make the following comments.

Ref	Consultation Paper Section	PPL Comment
1.1	5.2 Criteria for selection: environmental requirements	The EU Industrial Emissions Directive (IED) is expected to be passed during the course of 2010 and the new plant emissions requirements will apply when legislation is introduced in the next few years. The environmental permit for the BNE plant is likely to specify the NOx emissions to be less than 50 mg/m3 not 120 mg/m3 for liquid firing. This will require the installation of additional emissions abatement equipment. This additional cost should be included in the EPC costs.

2. Investment Costs

Ref	Consultation Paper Section	PPL Comment
2.1	5.5 EPC Analysis: PEACE cost estimates by CEPA/PB	The proposal not to use the previous multiplier is not understood and would appear to be an arbitrary decision. Given that world carbon steel prices have increased by over 40% and global composite stainless steel prices have increased by about 75% from the May 2009 figures, PPL would hold the opinion that the 5.5% unadjusted cost estimates produced by PEACE to be under-valuing the EPC costs by a considerable margin.
2.2	6 Investment Costs: Euro to Sterling exchange rate	The spot exchange rate used for the BNE cost calculation has increased by a further 6% since the 14th April 2010 figure quoted to €/£ 1.2. This movement should be reflected in the cost calculations.
2.2	6.2 Site Procurement Costs	It is not clear whether the land area required and estimated as 20,600m3 includes sufficient land for the installation of CCS.
2.3	6.2 Site Procurement Costs	It is not clear whether the Belfast West site was cleared entirely of all of the power station foundations and ash contamination below ground. A developer would need to include a provision for clearance of the existing foundations as it is unlikely that gas turbine manufacturers would provide guarantees on the GT's without new machine foundations.
2.4	6.5 Owner's Contingency	The 5.2% contingency is based on PB's project experience without qualification. PPL would view that a contingency of 10% would be more appropriate.
2.5	6.7 Initial Fuel Working Capital	PPL would not accept that it is appropriate to apply the secondary fuel obligation in the RoI to NI as the draft NI fuel security code indicates a requirement for plant to hold a minimum of 10 days secondary fuel stock at full output. PPL would hold that this value should be €12.05m to meet the proposed NI Fuel Security Code. The Article 39 consent will place a requirement to hold 21 days of fuel in stock at 60% average load factor would require a fuel stock holding valued at over €13.8m using the same fuel price

		assumptions.
2.6	6.8 Other Non-EPC Costs	PPL would consider that the non-EPC costs would be close to 15% of the EPC costs.
2.7	6.10 Summary of Investment Costs	PPL would consider that the investment costs are under stated by about 10%.

3. Recurring Cost Estimate

Ref	Consultation Paper Section	PPL Comment
3.1	7 Recurring costs estimate: TUoS	PPL notes that the BNE calculation is based on the current TUoS charges and does not include the proposal to increase the TUoS charges by 100% potentially from October 2010. Any increases in TUoS later in the year should be included.
3.2	7 Recurring costs estimate: O&M costs	The manpower does not include any engineering level grades. This not sustainable as an engineer grade would normally be required for normal O&M in the plant, to manage the LTSA with Alstom and plant high voltage permit control. The sum of €461k for the manpower costs pa is under stated.
3.3	7 Recurring costs estimate: Business rates	The Business Rates item for the NI Distillate plant should be around €750k per annum. Is there an error with the NI Dual Fuel plant cost estimate of €926.7k?
3.4	7 Recurring costs estimate: Fuel working capital	Taking the comment (2.5) above, the opportunity cost should be €765k for the Fuel working capital (ongoing) using the same calculation methodology and assuming the proposed WAAC of 6.35% is used.

4. Economic & Financial Parameters

Ref	Consultation Paper Section	PPL Comment
4.1	8.3 WACC Proposals	PPL's view of the WACC proposals for the BNE 2011 calculation are too low for two main reasons. Firstly, the returns demanded by capital providers will if anything be higher than 2010 due to the low availability of project finance for this type of project and the volatility of the financial markets in the past few year. Secondly the risks associated with the income profile for an OCGT operating in the SEM given the track record in the year on year changes to the Capacity Payments. This would support the statements made by CEPA / PB in relation to the approach taken to derive the WACC (ref Annex 2 Section A.3.) PPL would not agree with the reduction in the WACC from 2010 BNE calculation and would hold the opinion that the WACC should be marginally higher than or at least close to the 2010 rate.

5. Capacity Requirement for 2011

Ref	Consultation Paper Section	PPL Comment
5.1	13.3.2 Demand Forecast	PPL notes the intention of the RA's to revisit the demand forecasts to ensure they reflect the actual demand trend and would argue that the €/£ exchange rates should also be refreshed at the time of the BNE calculation decision paper issued by the RA's.

6. Indicative Annual Capacity Payment Sum for 2011

The proposed ACPS for 2011 represents a further 2.2% reduction following the 14% reduction in 2010. PPL is seriously concerned that the further reduction in the ACPS will discourage prospective independent power plant developers from entering or building new plants in the SEM thus strengthening the position of the incumbent vertically integrated companies. This is supported by the lack of progress in the development and delivery of a few large IPP projects announced in the past few years.

7. Concluding Remarks

PPL would also strongly recommend that the base assumptions and factors used in calculating the ACPS are revisited in particular the WACC proposals and that consideration be given to the comments on the BNE Cost calculation.