

30<sup>th</sup> June 2009

Mr Clive Bowers  
Commission for Energy Regulation,  
The Exchange,  
Belgard Square North,  
Tallaght,  
Dublin 24

Mr. Jody O'Boyle  
The Utility Regulator  
Queens House  
14 Queen Street  
Belfast  
BT 16ER

**RE: Fixed Cost of a Best New Entrant Peaking Plant and Capacity Requirement for the Calendar Year 2011**

Dear Clive, Jody,

As a starting point, the Regulatory Authorities (RAs) should be commended for the greater levels of transparency provided in the most recent review of the Best New Entrant (BNE) Peaking Plant and Capacity Requirement for 2011. It has been a positive development in the consultation process, allowing participants to better assess the data and contribute more robustly to the process.

BG Energy recognises that a revised Capacity Payment Mechanism (CPM) methodology is scheduled to be introduced for 2013 and BG Energy looks forward to contributing to the design of this enhanced methodology. However, provisions for future improvements should not stagnate or prevent tweaks to the current methodology and its inputs to ensure the correct signals and compensations are distributed to the market in the short-term.

BG Energy is of the view that the objectives of the CPM and the assumptions made in the latest calculation of the BNE are contradictory, and send confusing signals to potential new investors. As you are aware, one of the primary objectives of the CPM is to signal suitable investment in the market, yet the assumptions in the 2011 calculation do not reflect future developments in the system and the future need for flexible and fast responding back up generation. The assumption that the BNE will only operate under winter peak conditions and therefore needs a ramp-up to

full load in 20 minutes will not be appropriate with higher levels of intermittent generation. Under these circumstances peaking plants will be called upon more regularly, under different types of conditions and will be required to respond more rapidly than they are currently. In short, although the chosen Alstrom GT12E2 is appropriate for negligible levels of wind generation, it will not meet the system needs in future years. In their choice of the BNE and their calculation of the CPM the RAs should send the correct signals to investors That is to say their assumptions should be long-term in focus if they are to send the appropriate signals to investors and if they are to ensure that the required dynamic and flexible plant will be available when required.

Cognisant that the overall decrease in the CPM is relatively small when compared to the 14% drop last year, BG Energy is still concerned about the overall uncertainty in the BNE/CPM process. For example last year the plant lifecycle was arbitrarily increased from 15 to 20 years and this year an already subjective multiplier applied last year was this year removed without sufficient justification or rationale. Similarly, the decrease in the cost of debt seems inconsistent with the market realities faced by participants. Although BG Energy recognises the complexities involved in calculating the overall WACC for a BNE and rarely will two parties derive the same figure, BG Energy's analysis would suggest that the WACC and in particular the cost of debt should be higher for a BNE in the current market environment.

In summary, BG Energy commends the increasing levels of transparency which the RAs have provided with respect to the calculation of the fixed cost of the BNE and the capacity requirement. However, BG Energy does not believe that the underlying assumptions and certain arbitrary inputs provide the correct signals and incentives for new investors to consider investing in the SEM.

I hope you find the above comments helpful to your review. If you have any comments or queries please do not hesitate in contacting me.

Yours sincerely

Jill Murray  
Commercial Regulation  
Bord Gáis Energy

{by email}