



IWEA response to the Consultation on BNE Peaker for 2012

10 June 2011

The Irish Wind Energy Association (IWEA) welcomes the opportunity to respond to the Joint Regulatory Authority consultation on BNE Peaker for 2012. IWEA has some concerns over some of the input assumptions used for these calculations and these are outlined below:

Capacity Requirement

The purpose of the Capacity Payment Mechanism is twofold; to remunerate the long-term financing requirement of investment in generation capacity and to incentivise availability of plant that has been built. The mechanism by which the capacity pot is established reflects demand, new construction capacity and cost of the chosen technology. While generation capacity exit, new entry, evolving technology and cost of the BNE should certainly be reflected in the capacity pot, the rationale for varying demand is less clear.

While current practice is to reflect the best estimate of demand that reflects likely short-term variability of demand, it could be argued that reflecting a short-term reduction in demand is actually counter to the need to provide a secure supply of electricity to customers. Given that investment in generation is a long-term commitment with a long lead time for delivery, a reduction in the capacity pot based on a temporary, recession-driven drop in demand does not provide an efficient signal to exit the market because capacity that may be required again within a year or two as demand recovers, may be incentivised to exit the market. If this happens then the market may incur higher costs as a result of a requirement to provide temporary capacity at strategic points on the system, as has been found necessary prior to delivery of the SEM. On the other hand, more efficient peaker technology, or lower capital costs should be regarded as a much more important and rational driver for the exit of older and less efficient plant from the market.

For this reason we believe that it would be appropriate to adopt a “high water mark” approach to the demand used to calculate the capacity pot, unless there is a sound rationale for expecting demand to show a permanent reduction; for example the rollout of smart metering resulting in a demonstrable modification to the shape (and magnitude) of peak demand”

Calculation of WACC

IWEA also has some concerns over the calculation of the WACC as it appears that the levels used in the consultation are very low. In particular we would like to note that following points:

- 1) The risk free rate for the UK of 1.75% is ridiculously low for a 15 year investment. This is actually negative in real terms, with UK inflation target rate of 2%

- 2) A debt premium of 1.75% is not achievable. 2.5% is the minimum early years achievable in NI, but over 15 year life 2.75% is more appropriate

Transmission & Market Operator Charges

IWEA notes that a decision has been made that there will be an all-island generator TUoS charge and the level of these charges is currently being consulted on. This methodology should be reflected in the calculation of the BNE costs. It is likely that the cost in NI will change significantly as a result of this new methodology and this change needs to be taken into consideration in the calculations.

Conclusion

It is essential that the assumptions used in the calculations for the BNE Peaker are valid and fulfil their objectives. The purpose of the Capacity Payment Mechanism is to remunerate the long-term financing requirement of investment in generation capacity and to incentivise availability of plant that has been built. This long-term aspect must be kept in mind when determining the assumptions, in particular in relation to demand as outlined above. It is also essential that the manner in which the figures used are arrived at is fair and transparent.