



**Consultation on Fixed Costs of a Best New Entrant Peaking Plant & Capacity Requirement for the Calendar Year 2011**

**SEM-11-025**

**NEAI Response**

**Status: Final**

**Date: 10/06/2011**

**Introduction**

The National Electricity Association of Ireland (NEAI)<sup>1</sup> is the sector association representing the common interests of the electricity industry on the island of Ireland.

Our mission is to contribute to the development and competitiveness of the electricity industry in Ireland by representing the interests of our members at national and European levels and to advance the role of electricity in support of social and economic development.

**Executive Summary**

The NEAI welcomes the opportunity to respond to this consultation. We believe that as the overall 'capacity pot' amount continues to be reduced on an annual basis the mechanism is gradually becoming divorced from its original objective to encourage new investment and provide adequate reward for plant performance. The reality is that no BNE Peaker Plant would be constructed on the basis of what is proposed in this paper.

In addition, our members request should that greater transparency be provided in relation to the following; factors influencing location, the sources of information for derivation of the WACC, justification for the choice of the size (MW) of the unit, breakdown of how ancillary services payments were calculated and request realistic forecast of same.

Our response covers the following aspects of the consultation paper;

1. Weighted Average Cost of Capital(WACC)

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<sup>1</sup> Members include; ESB, Viridian Power & Energy, Bord Gais Eireann, AES Corporation, Tynagh Energy, SSE Renewables, Endesa Ireland, Bord na Mona, Synergen Power, Coolkeeragh ESB, Hibernian Windpower, ESB Networks and NIE T&D

2. Annual Capacity Requirement
3. Continued reduction in AS Revenues
4. Assumed TUoS Charges

### **1) Weighted Average Cost of Capital (WACC)**

The determination of an appropriate WACC is a key factor in the calculation of the annual BNE Peaker. It is the NEAI's considered view that it is inappropriate to treat WACC in RoI separate from WACC in NI (based on generic GB fundamentals). The fact of the matter is that an investor is investing in SEM, which is a single market. The investor risk premium should therefore be more reflective of the risks of investing in SEM (RoI and NI) and the WACC should reflect this. We propose that this is a more sensible approach to choosing a GB based risk and cost of debt/equity profile which bares no relevance to costs of investing in SEM.

### **2) Annual Capacity Requirement**

It is vital for future investment that a realistic estimation of annual capacity requirement is made based on realistic assumptions of future developments in supply and demand. We believe that the proposed capacity requirement for 2012 understates the necessary volume on account of the inclusion of the Moyle and East/West interconnector with a lower Forced Outage Probability (FOP). NEAI proposes that a consistent FOP should be applied for Interconnectors with FOP levels more akin to generation plant. This is particularly relevant when one takes into account that EWIC technology is different to Moyle, with a longer route and there is no historic experience of its operation to date.

### **3) Deduction of Assumed AS and IMR Revenue**

NEAI is opposed to the concept of deducting AS and IMR rents from the annual annual cost of a peaker. Receipt of these payments is unpredictable and uncertain and will be discounted by any investor at the project appraisal stage. Given that an investor cannot reasonably price in the value of these payments, we do not believe that the RAs should.

### **4) Assumed TUoS charge**

NEAI notes that the assumed TUoS charge for a BNE is based on 2010 charges, whereas NEAI believes given the proposed change in methodology to apply from October, it would be more appropriate to utilise the indicative 2011/12 charges as the basis for the BNE. This will result in higher TUoS charges for NI based BNE but is likely to be more reflective of actual costs.

### **Conclusion**

NEAI remains available to meet with you to discuss any aspect of this response. We note the ongoing CPM Medium Term Review and intend to submit a response to the ongoing consultation on the final workstream.

*National Electricity Association of Ireland of 10<sup>th</sup> of June 2011*