NIE Energy Limited
Power Procurement Business (PPB)

Fixed Cost of a Best New Entrant Peaking Plant for the Calendar Year 2009

Consultation Paper

SEM-08-083

Response by NIE Energy (PPB)

1 August 2008.

Introduction

NIE Energy – Power Procurement Business ("PPB") welcomes the opportunity to respond to the consultation paper on the Fixed Cost of a Best New Entrant Peaking Plant for the Calendar Year 2009.

General Comments

PPB has no particular comments on the technology selection adopted in the consultation paper.

PPB does considers that the limited tradability of gas capacity in RoI does not provide sufficient flexibility to allow a generator to avoid the fixed costs for gas capacity and agrees that distillate is the appropriate fuel.

PPB is concerned that the SEMC's decision that SCR is not required to meet NO_x limits is not supported or based upon any rigorous analysis. It is clear that emissions at part load (particularly at the lower end of the load range) are higher than at full load yet there is no analysis to corroborate the SEMC's conclusion. As we have also expressed in responses to previous consultations, there should be consistency in the determination of the BNE price to ensure volatility is not created artificially. PPB has concerns that excluding the associated capital cost of SCR undervalues the BNE cost and we question whether building such a plant would satisfy the concept of Best Available Technology (BAT).

Section V of the consultation paper indicates that the cost estimates (and hence pricing) are based on real prices for a plant commencing commercial operation at the end of 2008. As the BNE price is in respect of 2009, the final price must be inflated to 2009 prices, otherwise the BNE price is understated.

PPB is not able to comment on the detailed cost items. However, we find it surprising that the resulting BNE price does not appear to reflect an increase that one would expect based on the general cost increases in commodities, etc. which should provide some indication in the general trend. PPB is also concerned that the costs is based on what is termed "cost estimates from a number of reputable sources". Based on previous experience, PPB would caution that such speculative quotes will tend to be lower than the actual cost that would be incurred were a firm contract to be offered.

We also note that the consultation paper quotes an indicative Capacity Requirement for 2009 which reflects the growth in load. We expect there will be a full consultation on the Capacity Requirement since the value for 2008 made various assumptions on plant availability which do not appear to have been realised. Similarly it is not clear how "non-firm generating capacity" is treated in this calculation under the current provisions of the Trading and Settlement code, it appears that non-firm plant captures full capacity value which clearly has implications for the capacity signals provided under the CPM and which may require the Capacity requirement to be increased.

On the issue of the horizon used to evaluate EPC costs, there are attractions to the use of some form of averaging to smooth out volatility. However, it could have a negative impact on generation security since, if new build is required when the spot cost is high, the capacity may not be constructed (similarly, where the cost is low, too much capacity could be constructed). On balance, PPB considers that spot prices should continue to be used to determine EPC costs.

In conclusion, PPB is only able to provide comment on a small subset of the many inputs used in the determination of the BNE for a peaking plant. However, based just on this limited subset, PPB considers the proposed BNE of €81.24/kW/yr is understated by at least 10% (including c 4% to convert to 2009 prices).