

**NIE Energy Limited  
Power Procurement Business (PPB)**

**Scope of the  
Capacity Payments Mechanism  
Medium Term Review**

**Consultation Paper**

**SEM-09-035**

**Response by NIE Energy (PPB)**

16 June 2009.



## **Introduction**

NIE Energy – Power Procurement Business (“PPB”) welcomes the opportunity to respond to the consultation paper which seeks views on the scope of the Capacity Payments Mechanism (CPM) Medium Term Review.

## **Comments**

### ***Consultation Point 1***

PPB agrees that it would be useful to analyse the effect of the CPM in the market although PPB cautions that we believe it will be difficult to reach a conclusion on many of the matters the RAs propose to consider since they may be affected by wider considerations than the CPM (e.g. entry/exit decisions, types of plant being built). PPB remains unconvinced that the ex-post LOLP allocation has had any influence on the availability of generating units.

### ***Consultation Point 2***

PPB believes that the consideration of the impact on customers should also consider the wider demand side activity in the market. This should also extend to the various load reduction schemes that are operated by Eirgrid which appear to sit outside both the SEM DSM arrangements and the ancillary services harmonisation workstream.

### ***Consultation Point 3***

The CPM is designed to provide capacity payments and determines the rates on the basis of the cost of a BNE peaking plant. Therefore to the extent an existing or prospective generator doesn’t match this “benchmark”, any revenue differences will need to be captured through infra-marginal rent or Ancillary Service Payments. PPB believes that is the correct principle and for example incentives for Reliable Starts and short minimum up and down times should be addressed through a combination of the minimum functional specification for generating units and the ancillary service payments and/or Other System Charge arrangements (e.g. a failed start would represent a Short Notice capacity re-declaration). Such arrangements must remain distinct from the CPM.

### ***Consultation Point 4***

A review of the distribution of capacity payments has merit. However, moving away from a demand distribution would need to be carefully considered and the interplay with the Grid Codes (e.g. in relation to outage planning and the timetable for agreeing such outages, etc.) and with the TSO decision making processes needs to be carefully considered.

### ***Consultation Point 5***

PPB agrees with the proposals to consider the accuracy of the capacity requirement forecasting. This assessment must be objective and easily understood, linking closely to the published seven year capacity statements. There must be consistency across these inputs otherwise it will increase the risk for new investors and ultimately increase the cost for customers. This is

particularly true for the FOP assumptions where the CPM currently adopts a “desired “ reliability rather than using actual historic performance.

***Consultation Point 6***

PPB agrees that the determination of WACC should be reviewed, although it must be noted that decisions on other areas will impact the risk profile of any investment and therefore impact on the WACC.

***Consultation Point 7***

PPB have consistently argued that infra-marginal rent should not be included in the determination of cost of a BNE Peaker and we remain of that opinion.

***Consultation Point 8***

Foreign exchange rates impact on the CPM in both the determination of the BNE Peaker price and in the actual payments generators receive or suppliers pay in a year. It is not clear from the paper whether the proposal is to consider both these aspects or just to the extent exchange rate fluctuations affect the BNE Peaker price. PPB believes the former to be more relevant as in theory, the latter could be hedged by participants if for example they were seeking to offer longer term contracts to customers.

***Consultation Point 9***

Clearly the ongoing expansion of wind generation will have a major impact on the SEM and the variability of output could have an impact on the sharing of the Capacity Pot among generators. The review should seek to assess the materiality of varying annual load factors for wind farms both on their CPM revenues and those of traditional generators.

***Consultation Point 10***

PPB agrees that the treatment of Interconnectors needs to be re-assessed to understand the impact on both the interconnectors and other generators (and demand) arising from the various treatment options.

***Consultation Point 11***

The harmonisation of ancillary services and the introduction of generator performance charges will have an impact on the BNE Peaker price and will need to be reflected in the CPM considerations.

***Consultation Point 12***

There are a few other issues that PPB believes should also be considered as part of the wider CPM review. The first is the matter of the fuelling requirement for the BNE Peaker (i.e. is it required to be dual fuel and if it is to be gas fired, does the cost include the full cost of gas transportation). The second area is the CPM year which is currently based on a calendar year but which is out of line with the main tariff year. As noted earlier, we also believe the impact of the various customer demand reduction schemes operated by Eirgrid outwith the wider SEM arrangements should also be considered.