Response to

Fixed Cost of a Best New Entrant Peaking Plant

&

Capacity Requirement for the Calendar Year 2010

AIP/SEM/09/072

29 July 2009

Scottish and Southern Energy

Airtricity Ltd, Airtricity House, Ravenscourt Office Park, Sandyford, Dublin 18

Summary

In general, Airtricity finds the process and the analysis of the Fixed Cost of a Best New Entrant Peaking Plant & Capacity Requirement for the Calendar Year 2010 to be of sufficient rigour and in keeping with the established Capacity Payment Mechanism methodology. The RAs stated objective of making the process as transparent as possible is welcome. In addition, the inclusion of views from the industry and 'real world', factual experience into the consultative process has been constructive.

Transparency

Given the importance of the Capacity Payment Mechanism in SEM, it has been useful that the RAs have followed a process that allows the determination of the BNE fixed costs and the 2010 Capacity Requirement to be more visible to the industry. Running a public workshop at the start of the process for the approach to be used by the CEPA/PB consultants to be presented to the industry and for views from the industry to be aired is positive. It has also been useful that actual 'facts on the ground' have been applied to modelled estimations to better reflect real world experience. This has been most evident in the use of the 3.8% adjustment factor, derived from PB's recent relevant project experience, to revise the values of EPC costs obtained from the GT PRO software tool.

Calculation Methodology for BNE Fixed Costs - Upcoming CPM Review

In light of the planned comprehensive CPM Medium Term review we agree that it is only sensible that the current CPM methodology as used to determine the previous years' capacity pot values also be used for determining the capacity pot value for 2010.

Technology Options

Airtricity is pleased with the thorough but sensible process used in selecting the BNE technology. It is a welcome development that input from the industry was fed into forming the decision logic of a rational investor, identifying that given 'the relatively low running time of the [BNE] plant, a rational investor would allocate a larger weighting to cost rather than plant efficiency'. We also welcome the inclusion of gas elements for consideration in the selection process, in relation to both plant fuel and transmission charges. Even though the eventual BNE plant proposed for 2010 is distillate-fired, it has been useful to have visibility of the cost dynamics for the different fuelled plants and to be able to compare them side-by-side through the analysis.

Capacity Requirement for 2010

As with the BNE fixed costs, Airtricity agrees with the inclusion of the Capacity Requirement Calculation as a possible work stream in the proposed CPM Medium

Term review. For the 2010 calculation however, we agree with the decision also to use the methodology as currently in place.
In this vein also it is to be noted that the proposed decisions on the input parameters for this calculation are reasonable. With particular reference to the demand forecast, it is useful to note that given the current down trending economic situation that the RAs and TSOs have made good efforts to build up a view that includes the most-widely used economic forecasts for the two jurisdictions. Furthermore the position of the RAs to revisit these forecasts to 'ensure that they still reflect the actual demand trend' is a welcome addition to the process.

Looking Ahead

The upcoming CPM Medium Term review potentially presents a timely opportunity to comprehensively assess the mechanism in relation to its objectives, its operations and its outturns. The need to do so is even more critical given the nature and direction of changes in the makeup of the electricity system on the island of Ireland. Airtricity looks forward to actively engaging in the whole range of issues affecting the CPM in the SEM. It is our hope that the process for that review is transparent, thorough and reflective of new dynamics in electricity systems.

To discuss the document please contact:
Emeka Chukwureh
emeka.chukwureh@airtricity.com
+353 1 655 6589