

## **IWEA Response to AIP/SEM/09/072**

### **Consultation on Fixed Cost of a Best New Entrant Peaking Plant & Capacity Requirement for the Calendar Year 2010**

**31/07/09**

IWEA welcomes the opportunity from the Regulatory Authorities to respond to this consultation. IWEA is however concerned at some of the proposed changes to the current methodology summarised in the following points for consideration.

-It is noted that the life of the BNE OCGT has been extended from 15 to 20 years. This arguably arbitrary change means that a higher capital cost has resulted in a lower capacity value because the investment is spread over a longer time period. All previous BNE OCGT calculations have been based on a 15 year period. This change is the major contributor to the 8% reduction in the BNE OCGT.

-There is insufficient transparency on how the capacity requirement is calculated and how a 7% reduction is arrived at. For example it would be important to know whether current demand reduction has been more at night than at the peak. It is also inappropriate to calculate availability based on a target rather than actual.

-Beyond the 15% reduction in the capacity pot, there is a further reduction to an individual generator because the pot is spread more thinly. With the advent of new conventional gas plant and the resulting perceived improvement in availability of existing plant (lower demand means unreliable generators are not being run and thus appear reliable) the capacity payments to individual generators could drop by a further 13%. It is necessary for the correct operation of this mechanism, to ensure that the reliability of plants with low running regimes are not considered more reliable than they actually are.

-It is also noted that despite using the same technology option for the BNE in previous years, the average rated output is now 10MW greater. In addition, it is now assumed that the BNE will have 100% availability whereas in previous year availability has been assumed as being 95% taking into account planned and forced outages which are inevitable.

While recognising that the capacity pot will necessarily change from year to year, IWEA believes if the intent of the regulatory authorities is to establish a transparent mechanism that holds credibility within the industry, the rule set governing that mechanism should be applied consistently. One objective of capacity payments is to stabilise investment signals for generators. We believe that the proposed changes discussed above introduce an additional level of risk to the investment climate.

Changes which appear to attempt to achieve a predetermined price should be avoided with amendments to the mechanism justified only to the extent necessary to achieve the intended objectives.