



**SEM 012-029 Fixed Cost of a Best New Entrant Peaking Plant and Annual Capacity Requirement for the calendar year 2013**

**NEAI Response**

Date	19.06.2012
Status	Final

Our members welcome the opportunity to respond to the consultation on the BNE and annual capacity requirement for 2013. We also wish to acknowledge the efforts of the RAs to facilitate a most worthwhile workshop on the 6<sup>th</sup> of June and the extension of the deadline to the 19<sup>th</sup> of June. The materiality of this significant consultation is made even greater this year by the three year timeframe for the implementation of the outcome of any decision. It is crucial therefore that all steps are taken at this point to ensure the stability of the fund and minimise investment uncertainty during this period.

In our response, we will reiterate previous calls for a 'Blended WACC'. We will also propose amendments to the calculation of the BNE bid price and highlight other cost issues for consideration.

**1. Blended WACC**

The NEAI has previously advocated the concept of a 'blended WACC' to reflect the reality that an investor in SEM assumes the credit default risk of both ROI and NI. In appendix 4, we note CEPA's proposed methodology and the recommendation that the RAs should consider this change in methodology for calculating the BNE WACC in light of the calls for such in previous consultations. Our members reiterate the need for a 'Blended WACC' and are disappointed at the absence of such a proposal from the main body of the consultation paper.

Comments in relation to the methodology will be addressed in our members' respective responses

**2. IMR Calculation/ BNE Bid Price**

$$\text{Weighted Average Bid Price} = \frac{\text{No Load} + P1Q1 + P2(Q2-Q1) + \dots}{\text{Max capacity}}$$

$$\text{IMR DEDUCTED IN €/KW} = [\text{PCAP-BID}] / 1000 * \text{OUTAGE TIME} * (1-\text{FOP})$$

The RAs have confirmed that the average bid price of Peakers already in the SEM was used as a proxy for the bid price of the BNE. These bid prices were taken on 31 March and the average bid price was €264/MWh. Fitting this in with the other parameters (PCAP = 1000, Outage time = 8 hours, FOP = 5.91%), results in IMR of €5.54/kW.

We propose the following amendments to the methodology;

- The bid price in the IMR calculation should include start-up costs.
- The revenue figures should also have the relevant TLAF applied since the output is multiplied by the TLAF to calculate energy revenues.

### **3. Other Cost factors**

- Gas Capacity Costs

NEAI would welcome a commitment from the RAs to review the gas capacity costs pending the outcome of the ongoing review of the bidding of gas capacity in SEM.

- NI Carbon Price Floor

Fuel costs have not been adjusted to account for Carbon Price Support rates which will be introduced in Northern Ireland in 2012 and which will affect both the cost of the fuel working capital and the bid price . In relation to the latter, we recommend that the average carbon price floor for 2013, 2014 and 2015 be used given that the BNE will be fixed for 3 years covering this period. Rates have been set for 2013/14 & 2014/15 (commencing 1<sup>st</sup> April) which are £4.94/Te & £9.55/Te and an indicative rate of £12.06/Te has been set for 2015/16. Further information is available online @ <http://www.hmrc.gov.uk/>.

- Exchange Rate

Changes to the exchange rate in the intervening period since last year's consultation have not been reflected in parts of the consultation paper (See 7.3 and 7.4 on p. 23)

### **Conclusion**

To conclude, NEAI welcomes the opportunity to respond to this consultation. In our response, we have highlighted issues with the methodology for the calculation of costs and have made proposals to address these issues. We are available to meet at your earliest convenience to discuss this issues raised in this response further.