

Kevin Baron
Northern Ireland Utility Regulator
Queens House
14 Queen Street
Belfast
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Submission Date: 22nd June 2015

Regarding: Brookfield Renewable Response to the Capacity Requirement and Annual Capacity Payment Sum for Trading Year 2016 consultation paper

Dear Kevin,

Brookfield welcome the opportunity to respond to the consultation paper regarding the proposed annual capacity payment sum for calendar year 2016. We are disappointed to read the consultation's proposal to reduce the capacity pot by 20% and strongly request that the SEMC carefully consider measures to mitigate this dramatic change and the damaging uncertainty and volatility it introduces.

1. Summary of Position

The significant reduction in annual capacity payment sum proposed for 2016 is a major source of concern for all generators participating in the SEM. To date, the SEM has been successful in attracting investment in both conventional and renewable generation and this has delivered a secure, reliable source of electricity to consumers at competitive costs. Clear signals and regulatory certainty are essential elements of delivering capital intensive long term investments. It is Brookfield's view that index-linking the capacity payments has provided this stability and certainty over the past 2 years. Furthermore, we strongly believe that the rationale for continuing to provide stability and certainty to the capacity pot still remains as investors in the SEM face significant uncertainty, not least from the new market structure and continued delays to the delivery of DS3. Brookfield support the findings of EAI's submission that addresses inconsistencies in the consultation on the calculation of the WACC, the level of capacity requirement and the infra-marginal rent elements of the BNE calculation.

2. Regulatory and Market Certainty

The SEM's capacity mechanism is an integral part of the SEM market design that should ensure adequate generator revenues by addressing the missing money problem. A successful capacity mechanism in turn ensures system security through adequate levels of investment in generation. To date, a strong policy and regulatory environment has existed in the all-island energy market providing investor confidence and certainty which has facilitated significant investment. We strongly believe that the proposed reduction to the capacity pot sends a negative signal, erodes investor confidence and creates uncertainty that damages the attractiveness of the all-island SEM as a location to invest over the long term. The SEM is competing with other markets to attract capital and a stable regulatory market regime is essential to secure

investment. It is crucial that investors are given clear investment signals through regulatory certainty both for existing and future investments. Introducing additional risks and costs increase the investment risk profile for current and prospective market participants and must be avoided where possible. It is Brookfield's position that the commercial impact of the proposed reduction to the Capacity pot for 2015/16 is not in the best interests of consumers over the long term because of its negative impact on the SEM as a place to invest and for this reason the proposed reduction in the capacity pot must be mitigated.

Following the CPM Medium Term Review in 2012, the SEMC decided to index-link the capacity pot for 2 years recognising that "a 'Component Period Horizon' of 3 years can bring some stability and certainty to the volatility in the capacity pot year on year"¹. We believe that index-linking the Capacity pot has provided certainty and addressed volatility and furthermore, given delays to I-SEM and DS3, we believe that the need to provide certainty is even stronger now. Brookfield reiterate our call to recognise the need to provide this certainty and address the uncertainty in the market.

3. Investment in Renewables

Across Ireland steady progress has been made towards 2020 renewables targets. Beyond this, Ireland's abundant renewable energy resources mean it is well placed to continue contributing to decarbonising the electricity system not just on the island of Ireland but to Europe's 2030 renewables and decarbonisation goals. Renewables also make a significant contribution to the all-island energy market enhancing security of supply, decarbonising the electricity sector and providing electricity at stable, competitive costs. The renewables industry also provides a source of investment and economic benefit. In order to ensure continued investment in renewables and the all-island energy market, we urge the regulators to consider the effect a significant reduction in revenues has on the need for certainty and stability.

4. Review of the BNE Calculation

Brookfield also supports the response provided by the Electricity Association of Ireland (EAI), which includes the conclusions of a review of the elements of the proposed BNE calculation.

- **The WACCs proposed in the consultation have been underestimated and pre-tax WACCs of 6.45% and 5.69% more accurately reflect the investment risks in NI and ROI respectively.**

Brookfield support the analysis provided by Frontier Economics to EAI in relation to the weighted average cost of capital (WACC). Frontier have conducted a top down market comparison of WACC from other market sources and a bottom up assessment of the elements comprising WACC. Both of these approaches indicate that the WACC used in this consultation is significantly below what is appropriate for

¹ Section 3.3 of [SEM-12-016](#)

a BNE. Brookfield agree that pre-tax WACCs of 6.45% and 5.69% more accurately reflect the investment risks in NI and ROI respectively.

- **The Capacity requirement used in the consultation is too low and does not reflect the levels of generator margin that are tolerated by TSOs and RAs without intervention.**

Brookfield also supports the findings of Pöyry, who conclude that the security standard required in determining the cost of BNE is not reflective of the security standard maintained in SEM and that previous TSO actions undermine this stated security standard.

- **The IMR earned by BNE is significantly underestimated in the method employed.**

Brookfield supports Pöyry's conclusions that the Infra-marginal Rent deduction proposed in the consultation (€6.10/kW) does not tally with the level of IMR earned in the SEM in recent years nor does it reflect the higher security standard of 4.9 hours LOLE in Northern Ireland.

In conclusion, Brookfield Renewable believe that the proposed reduction to the Capacity Pot damages the regulatory certainty and stability that the CRM is designed to deliver. We believe that index-linking the capacity pot has delivered certainty and stability and similar measures to mitigate the volatility to the capacity pot should be carefully considered by the SEMC, particularly given the additional uncertainty in the market from the introduction of the I-SEM market re-design and the continued delays to the DS3 Programme. Finally, we support the EAI response, which identifies elements of the BNE calculation proposed in the consultation that must be reviewed.

Regards,

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