

**Submission by Bord na Móna PowerGen
On**

**Fixed Cost of a Best New Entrant Peaking Plant, Capacity
Requirement & Annual Capacity Payment Sum for the
Trading Year 2016**

Consultation Paper

SEM-15-032

Introduction

Bord na Móna (BnM) welcomes the opportunity to comment on the consultation paper the ‘*Fixed Cost of a Best New Entrant Peaking Plant, Capacity Requirement & Annual Capacity Payment Sum for the Trading Year 2016*’ (SEM-15-032).

Bord na Móna as a founding and active member of the Electricity Association of Ireland (EAI) is aware of the submission from the EAI will be making and the supporting evidence that will be attached (namely independent reports¹ prepared by *Frontier Economics* and *Poyry*). In the interest of brevity and expediency, it is not intend to include here or repeat verbatim the objective research and detailed recommendations contained in the EAI submission other than to state that Bord na Móna fully endorses the methodologies adapted and the conclusions reached by the EAI and the independent experts.

General Comments

In terms of broad brush strokes the two studies that are appended to the EAI submission contain, *inter alia* the following evidenced based messages:

- Weighted Average Cost of Capital (WACC) is underestimated
- The Capacity Requirement determined is unrealistic and falls short of the volume required to meet a security standard with a value equivalent to eight hours loss of load
- Inconsistencies in the IMR Derivation lead to under-payment

In previous submissions to the SEM Committee on the topic of the Fixed Cost of a BNE and the determining of the ACPS, Bord na Móna have consistently (where the topic was open for consultation) argued that while the methodology of calculating the fixed costs and ACPS is correctly implemented there were inherent flaws and inconsistencies in the derivation of inputs used in the calculations themselves. In terms of constructing a suitable WACC, Bord na Móna have perennially argued that the WACC must be consistent with the risk profile of the market where the investment asset is intended to be located, i.e. the market where it will earn its revenue.

Comments have also been previously submitted by Bord na Móna on the subject of the appropriateness of the security standard used in the ACPS calculation.

Regarding the revised calculation (post the Medium Term Review in 2012) for the IMR deduction Bord na Móna have made cogent arguments each year describing the inappropriateness of the methodology. It should be noted that in February 2012 Bord

¹ *Benchmarking the BNE WACC for 2016*; Frontier Economics, June 2015 & *Review of Consultation on Proposed Annual Capacity Sum for 2016*, Poyry, June 2016

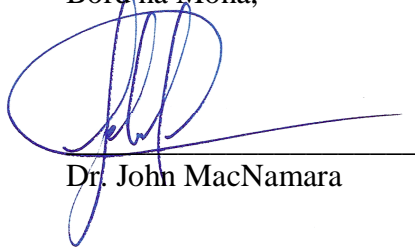
na Móra, as the market participant who invested in *the most appropriate proxy for the notional BNE on the power systems* wrote directly to the SEM Committee and included auditable data which demonstrated that the assumptions underpinning the IMR deduction were simply not grounded in reality.

Notwithstanding these ‘historical’ BnM arguments, some made with and without supporting evidence, Bord na Móra would now urge the SEM Committee and the RAs to objectively examine the “bottom up & top down” analysis carried out on the WACC/ACPS by Frontier and Poyry respectively and implement their recommendations in the final decision paper.

Should you require any clarification please do not hesitate to contact me.

Yours sincerely, for and on behalf of Bord na Móra PowerGen,

For and on Behalf of
Bord na Móra,



Dr. John MacNamara