
Integrated Single Electricity Market

Capacity Remuneration Mechanism (CRM)

T-4 Capacity Auction for 2022/23

Best New Entrant Net Cost of New Entrant

SEM-18-025

Consultation Response from



June 2018

Context & Response

Bord na Móna welcomes the opportunity to respond to this important consultation which, at its very core, poses the question as to whether there should be a change in the choice of technology in the calculation of the Fixed Cost of a Best New Entrant (BNE) for the purposes of determining the BNE NET CONE. Very relevant is that SEMC's proposal is to make a change and choose a different technology to the OCGT technology used to date, in favour of a CCGT located in Northern Ireland which would result in the lowest NET CONE of all considered technologies. This potential reduction in CONE is highly relevant.

Any proposal which reduces CONE automatically dilutes the market signals to the rational investor who is faced with increasing risk from ISEM – with large uncertainty around the three main revenue streams, energy, ancillary services and remuneration from the CRM revenues. In addition, the investor is being asked to effectively take a market position some 4 years out from market realisation.

The Authorities will recognise that the flip side of investor risk is that the proposal under consultation would reduce the level of energy supply security.

Apart from this singular point there are several considerations which support the retention of OCGT as the relevant technology, with some of these set out below.

Response

As a member of the Electricity Association of Ireland (EAI) BnM supports the review and analysis conducted by Frontier Economics on behalf of EAI.

Rather than re-iterating Frontier Economics' critique/commentary in detail we highlight a number of points following their review and analysis of SEMC's 2018 Consultation Paper – namely in relation to:


- a) Timelines: There is insufficient time for the delivery of a CCGT by 2022/23 – in contrast to an OCGT which can be realised in a timescale more in keeping with a T-4 lead-in
- b) IMR: we believe that future IMR is over-stated. IMR is modelled to increase up to 2031/32. We believe that this is flawed as it appears to ignore the effect of new efficient units, more renewables and the potential effect of ISEM from price coupling
- c) WACC: this looks to be under-stated as it does not appear to reflect the higher risk associated with investing in generation in ISEM. This is significant as WACC is required to ensure that a rational investor's financial risk is remunerated in the marketplace to a sufficient degree to support a worthwhile investment decision – which will otherwise not be realised
- d) DS3 overstated: firstly we have insufficient visibility of the anticipated DS3 revenues set out in Figure 2 to comment fully, however, from our own internal assumptions we believe that the stated values are over-stated. In addition we would be mindful of the impact from the recent DS3 Market Ruleset decision to exclude constrained on plant from the temporal scarcity scalar multiplier which might not have been factored to these forecasts.

Underpinning a), b), c) and d) above is the lack of supporting data on which to make as important and as impactful a decision as that which is under consideration.

In conclusion, and for reasons set out in the Frontier Economics document as well as these summary reasons it is our belief that to make such a material change as one which is proposed, given the uncertainties associated with a timescale which is four years out, would not be appropriate in any way and that, in this context, the appropriate position would be to retain the OCGT as the relevant technology in setting the BNE within the T-4 2022/23 timeframe.

We hope that you find these comments of use and submit them for your consideration.

For and on behalf of Bord na Móna



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