

Enercomm International Response  
to

SEM-18-025

Re: Capacity Remuneration Mechanism  
(CRM) T-4 Capacity Auction for 2022/23  
Best New Entrant Net Cost of New Entrant  
(BNE Net CONE)

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## **‘1. Introduction**

Enercomm International has been making submissions to Consultation Papers in the Irish Electricity Market since market deregulation in 2000. In addition to the Irish market we have experience working with electricity authorities and major players in Russia, Israel, Kosovo, Serbia, USA, China, Vietnam, South Africa and Palestine.

Enercomm International are pleased to respond to the consultation on Capacity Remuneration Mechanism (CRM) T-4 Capacity Auction for 2022/23 Best New Entrant Net Cost of New Entrant (BNE Net CONE) (SEM-18-025), and make the points set out below.

## **‘2. Significant changes in the calculation and use of BNE**

There have been a number of significant changes in the calculation and use of BNE since the concept was established at market deregulation in 2000; in those early days it was used to determine values in the bilateral or Top-Up and Spill market. From 2007 it was used as a benchmark in the CPM. However, the biggest change was the move from the economic life of a BNE plant from 15 years to 20 years. Understandably this had the impact of spreading the capital cost over a longer time-span and hence lowered the BNE cost. No new thinking on technology or operation brought about this step reduction in the BNE cost – it simply was a different way of doing the calculation.

With the onset of I-SEM, BNE cost is being handed a whole new role in the Irish electricity market from setting the bid-caps for both existing and new plant to capping the RO multi-year capacity contracts for new or repowered plants. In addition, the relationship between BNE cost and a 15 or 20 year life-span has been lost with the time-capping of multi-year contracts to 10 years. What also seems to have been lost is the underlying logic of how the concept of a Best New Entrant relates to what the market requires today. It seems that BNE is either a phantom figure of the Irish electricity market or a universal soldier to be assigned whatever role is required in the market, and to ascribe some credibility to or justify a regulatory decision.

## **‘3. The Facilitation of Renewables Report of 2010**

The Facilitation of Renewables Report was a landmark document in the electricity industry here where it identified the future role for renewables, levels of SNSP and the need for flexible plant while pouring cold water on the construction of inflexible and large units. In particular on page 57 it stated “Guiding investments and further development of the conventional power plant portfolio. Important aspects are the flexibility of the plant mix, sufficient peaking capacity and granularity of the portfolio. Construction of inflexible and large units (multiple 100 MW range) might be discouraged by the regulative framework”.

This Report has had a significant impact of the development of the industry and market since then and set meaningful and deliverable SNSP targets for EirGrid. Yet despite the Report’s

negative comments on inflexible and large units the RAs and SEMC persist with either an OCGT or largescale CCGT, supported by the dated concept of BNE which is no longer relevant to iSEM.

**‘4. Misconception of “a MW of capacity is a MW of capacity”**

This fallacy needs to be robustly challenged. It eliminates any consideration of what is required today namely environmentally-compliant plant, best available technology, flexible capability, with high part-load performance and facilitating renewables. If we blindly accept the concept that “a MW of capacity is a MW of capacity is a MW of capacity” then we should invest in old clapped-out diesel plant (of which there are plenty across the globe) and support these investments with multi-year RO capacity contracts. This is not in keeping with a modern clean and efficient electricity supply industry. We should adopt the more sophisticated definition that “a MW of capacity is a MW of capacity with defined standards”. Is it any wonder that a leaked EU Climate Action Network Report (to be published shortly) puts Ireland in second last position, with only Poland expected to be behind us with regards to implementation of the Paris climate agreement. Even the least-developed countries in the EU are ranked ahead of Ireland.

**‘5. Time for an entirely new look at the BNE concept**

The current definition, terms, assumptions and standards underlying the BNE concept need to be totally re-evaluated. The Consultation Paper SEM-18-025 is with reference to the year 2022/23, almost a quarter of a century after the initial BNE was developed and calculated. Its underlying thinking and objective must have changed radically over that time – the world is now a different place and the electricity supply industry has changed utterly in that time.

Poyry is a consultancy group of international renown and is recognised thus around the globe. However, there is little evidence to show it has the willingness or capability to undertake a fundamental re-examination of the BNE concept and how it can best enable the Irish electricity industry (north and south) to migrate to a modern sophisticated industry. Is it too much to ask for a spark of enlightenment or vision? If we fail to address issues around BNE and how it is to be used then its credibility will further decline.

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