

IWEA Response to SEM-09-035

Joint Regulatory Consultation on the Scope of the Capacity Payment Mechanism Mid-Term Review

Date: 16/06/09

Introduction: The IWEA welcomes the opportunity from the Joint Regulatory Authority to respond to this scoping document. However, concerns have been raised that a view on the Treatment of Wind in the CPM has already been taken in advance of this consultation; most notably in the statement that that further consultation is required on the “correction of this overpayment”. In addition to responding to some of the consultations points raised, IWEA have also outlined a number of broader issues and principles that should be considered.

CPM Objectives: Fairness – IWEA believes that in addition to the principle that the CPM should not unfairly discriminate between participants it should be made explicitly clear that the CPM should not discriminate between difference types of generators and thus remain inherently fair. All generators get paid on availability and rightly, wind generators are not available when there is no wind resource. Any reduction in capacity payments to wind when they are available however would breach this principle and undermine fairness in the CPM.

Volatility: The consultation suggests that volatility is excluded as an issue from the medium term review – despite the fact that this issue has been clearly identified by many market participants as the primary impediment to financing peaking thermal generators. The consultation rightly recognises that more flexible and complementary peaker plants will be required with increased renewable penetration, however, by continuing with the current volatility in the CPM, it biases the market away from peaker plants towards CCGT plant which can rely on extra income from the energy market. The impact of capacity payments on consumers is to avoid boom and bust price scenarios, giving consumers a more stable market signals ensuring a better market for consumers in the longer term.

Transparency: The setting of the capacity requirement needs significantly improved transparency with a set of credible assumptions to be used in the calculation, for example, the assumption that generator availability is set based on unachievable targets rather than historical averages is not credible.

Flexibility: We note the recognition by the RAs of the importance of generator flexibility. It is important that the high-value flexibility of wind should be recognised and appropriately captured in the blend of ancillary services, energy and capacity payments.

Interconnector: There is a need for more flexibility on the interconnector with more dynamic trading rules required. The impact of the CPM in relation to those rules should be given appropriate consideration under this review.

Demand Side Participation: One area where the CPM can, in our view, directly improve system flexibility is through the promotion of demand side participation. We are surprised that this issue is not addressed in the medium term review as the IWEA consider demand side flexibility to be a powerful tool in managing high levels of wind penetration on a small power system with limited interconnection. We note however that many demand side options are generally energy limited and suggest that this is addressed as part of the CPM medium term review. Electric cars are an example of where a well structured CPM for energy limited demand side participation will be important.

Security of Supply: The CPM should give due consideration to broader policy objectives such as increased security of supply through the delivery of our national renewable energy targets. Any CPM review should consider the impacts of any changes on those targets. This review affords the Joint Regulatory Authority the opportunity to ensure that any conflicts or contradictions between the CPM and broader policy objectives are addressed, removing the potential for any frustration of targets.

BNE OCGT: IWEA broadly supports this methodology in setting a price for capacity in the system but considers that from a security of supply perspective the BNE should be a dual fuel unit. Only dual fuel units, or for that matter renewable energy sources, will support security of

supply in the event of a national/international oil or gas interruption. The deduction on Infra-marginal Rent in the BNE OCGT calculation is however perverse as it introduces a very large forecasting error to the process. The consequence of this is that the CPM will be lowered when capacity is most urgently needed on the system, a perverse outcome.