

NIE Energy Supply (NIEES) is mindful of the importance of ensuring capacity adequacy and welcomes the opportunity to respond to the consultation paper on the Scope of CPM Medium Term Review.

NIEES is particularly conscious of the impact of CPM on customers. In the first instance, NIEES notes that the capacity pot has increased by 42% over two years from 2007 to 2009. In Sterling terms, the increase is even more; a 64.5% increase in capacity charges after taking the fixed capacity exchange rates into account. As capacity represents a significant element of customers' bills, such a substantial movement in costs contributes significantly to volatility in retail prices between tariff years. A number of options to address the volatility of capacity between years were suggested in the consultation on the "Fixed Cost of a Best New Entrant Peaking Plant Calculation Methodology" (SEM-09-023) and NIEES feels that a mechanism to smooth capacity is extremely important to provide more stability for end customers.

Secondly, the profile of supplier capacity charges has less shape that might have been anticipated throughout the day. As a result, the relatively flat profile of capacity charges dilutes the price signal to encourage off-peak use at a time when surplus generation capacity is higher. NIEES feels that the profile of CPDP charges should be more sculpted to discourage peak use and encourage use at times of lower system load.

Finally, capacity charges can represent a difficult cost for suppliers to manage. Even though the capacity pot (and exchange rate) is fixed in advance each calendar year, the unit charges are dependant on the actual level of demand. Where the anticipated volume of all-island demand changes, this impacts on the resulting unit charges. In particular, where suppliers sell on fixed price basis, this can lead to an over or under-recovery. As a result, this makes the price risk around capacity very difficult to hedge and NIEES would propose that this is considered within the scope of this medium term review.