



**Single Electricity Market Fixed Cost of a Best  
New Entrant Peaking Plant Calculation  
Methodology Consultation**

**A Response from EirGrid and SONI**

**April 2009**

## **Introduction & Summary**

EirGrid and SONI welcome the opportunity to comment on the Regulatory Authorities' consultation paper concerning the calculation methodology of the Single Electricity Market Fixed Cost of a Best New Entrant Peaking Plant.

This response has been prepared jointly by EirGrid and SONI as licensed Transmission System Operators (TSOs) in the Republic of Ireland and Northern Ireland respectively and as Market Operator licencees through the Single Electricity Market Operator (SEMO).

EirGrid and SONI support the Regulatory Authorities' objectives of adequacy, stability, simplicity, transparency, efficiency and fairness. If changes to the BNE mechanism are considered at this time – in the absence of a wider and holistic assessment of the needs of system and market going forward – then EirGrid and SONI believe that these principles, particularly the principle of long term efficient signals, would be compromised. EirGrid and SONI therefore strongly advocate the adoption of Option 1 at this time pending the Regulatory Authorities further consultation on these matters currently scheduled for Q3 2009.

## **Objectives and Context**

EirGrid and SONI wish to see:

1. Well functioning markets which provide appropriate short and long term signals and incentives;
2. Appropriate incentives for investment in additional capacity in order to maintain adequate generation margins;
3. Incentives to provide this capacity to the market and to the system at times of greatest need;
4. Incentives to invest in the appropriate plant mix; and
5. Reward for plant performance, and in particular plant flexibility.

EirGrid and SONI are in agreement with the Regulatory Authorities that the Capacity Payment Mechanism (CPM) is an integral part of the SEM design and is complementary to the marginal pricing design of the energy market. The CPM provides revenues to cover the capital and fixed costs which are not covered through energy payments or other payment streams and provides incentives for generators to be available at times when the system needs generation capacity. EirGrid and SONI acknowledge the concerns raised by industry participants regarding the stability of the capacity payment pot and agree that stable long term investment signals – through the CPM or other means – are important in securing investment in new capacity. To date the CPM is primarily designed to achieve objectives 2&3 above.

In line with government policy, EirGrid and SONI are committed to the facilitation of renewables and to playing our role in the meeting of targets for renewable energy in Ireland. To this end, it is important to incentivise new capacity through the right mix of plant. EirGrid and SONI, the regulators and the industry all recognise the need for flexibility going forward. This flexibility is essential for system security, renewable support and continued balanced development of the system. If this flexibility is not present or if the plant portfolio is not performing adequately there is a real risk of not meeting our renewable targets and the development of the plant portfolio and market may be sub optimal (objectives 4&5 above).

Flexibility could potentially be rewarded through any of the payment streams to generators; energy, capacity or ancillary services. Whichever mechanism is chosen will have to be capable of being appropriately targeted. To date flexibility has been primarily rewarded through ancillary services which has the advantage of being able to be targeted in just such a manner; however, the payments to plant at their current level will be insufficient to incentivise the flexibility required. EirGrid and SONI's current thinking is therefore that increased payments through ancillary services is likely to be the most appropriate mechanism for incentivising the flexibility required. EirGrid and SONI have begun a study of the data for all participants for all categories of income and charges in an attempt to assess how this flexibility might be rewarded and what impact any rebalancing of payment streams might have. Following the completion of this analysis and in advance of the Q3 consultation we would like to engage with the Regulatory Authorities to discuss the impact of any rebalancing and also consider with the Authorities the potential benefits of a signal to further encourage and reward flexibility.

In addition further consideration of other related matters such as interaction with the BETTA market are also underway. It is important in determining the basis for payments in SEM we understand the interactions with BETTA and the effect this has on flows between the markets.

## **Conclusion**

Given the wider considerations EirGrid and SONI are of the opinion that the BNE should continue to be calculated on an annual basis as is currently the case. To do otherwise would be to preclude holistic consideration of the issues by the Regulatory Authorities in their forthcoming consultation. EirGrid and SONI therefore believe Option 1 is the only basis on which to proceed at this juncture. Other options may be worthy of consideration at some future date. These would have to be considered as part of a holistic development of payment streams to achieve the desired objectives and appropriate payment streams going forward.