Response by Viridian Power & Energy to Single Electricity Market Discussion Paper SEM-10-068

CPM Medium Term Review
Work Package 7
BNE Calculation Methodology

12 November 2010

1. Introduction

As previously stated, Viridian Power and Energy (VPE) welcomes the Medium Term Review of the Capacity Payments Mechanism (CPM). However, with the publication of the second paper of the review it is apparent that the approach being adopted by the RAs is unreasonable, inefficient and potentially damaging the function of capacity payments in the SEM.

A piecemeal release of related consultations on the functioning of the CPM has been adopted by the RAs. This approach should be reconsidered and the consultations should be supported by considered and accurate analysis. This has been lacking to date and errors in the current paper, although undoubtedly unintended, are misleading. Market participants should not be asked to comment on substantive issues, such as the BNE calculation methodology, in isolation and without recourse to the other related issues that are yet to be consulted on, including but not exhaustively;

- treatment of generator types in the SEM;
- incentives for generators; and,
- options for caps and floors.

These are all interrelated issues to be considered as part of any commentary on future arrangements that are to affect the financial status of current and future generation capacity in the SEM.

Furthermore, we urge the RAs to review their own actions and decisions in relation to the CPM and the capacity pot. The observed volatility in the annual capacity pot to date has principally been a function of regulatory intervention and a result of numerous changes enacted by the RAs on an annual basis not related to market driven developments. In proposing to fix all or some of the elements of the BNE calculation for more than one year, the objective of such a move should not primarily be motivated by a need for a regulator to take steps to restrict their role and protect the market from their own actions. Under best regulatory practice, a standard the RAs continue to seek to achieve, regulatory decisions in such a matter should be enacted only where such changes materially improve the functioning of the mechanism in terms of delivering its objectives. There is a perception in the market that this has not historically been the case with changes being made appearing to address outside political or other concerns focussed more on the size of the pot than the actual function of the pot.

The remainder of this submission is structured as follows; firstly we take a step back and consider the objectives of the CPM and the current market and the role of the current review; we then discuss the international comparison contained in the consultation paper before discussing the options forwarded in the paper for the calculation methodology of the BNE, this includes reference to the indexing proposals. Finally, we provide some observations on the options forwarded in relation to WACC.

2. The CPM in today's market

Tight capacity margins and a foreseen deterioration in this situation characterised the SEM at its inception. Historical underinvestment in capacity and infrastructure coupled with a growing economy meant new capacity was required and in an energy only market, such capacity would need to be incentivised through a capacity market. The preferred design was a capacity payment mechanism based on the fixed cost of a best new entrant peaking plant and capacity requirement determining the Annual Capacity Payment Sum (ACPS). The role of such a mechanism is to incentivise investment in new peaking capacity and also to remunerate base load and mid-merit capacity for a proportion of fixed costs not recovered through the energy only market.[1] Although theoretically arguable, it is empirically true that energy only markets do not sufficiently recover the costs of generators investments and as such require a complimentary market in capacity, notwithstanding the presence of an ancillary services market. There is no widespread agreement as to what the preferred capacity market design is but given the complex nature of electricity markets, it will be inherently linked to the energy market, ancillary services market, and market structure of respective countries.

In the intervening years, capacity has been built and along with a substantial deterioration in the macroeconomic environment, the capacity margin currently in the SEM is approximately 36%. Eirgrid do not foresee a return to 2008 electricity demand levels until 2014. The market today is clearly very different from that in 2007. This period has also seen substantial decommissioning of capacity and the beginning of a substantive change in the generation mix on the island with the increased penetration of renewables.

It is important however to remain cognisant of one of the objectives of a capacity market in a market such as the SEM, it is to ensure adequacy of capacity and to ensure reliability of generation (or firmness). From this consultation paper, it is clear that the SEM Committee are fully aware of these conditions indicating, "*it is mindful that the CPM provides signals for new entry/investment and should reward plant and capacity in accordance with its performance*". With seemingly adequate capacity on the system over the medium term, the CPM's primary role in this regard will be to compensate generators of all types for investments that are not fully recoverable through an energy only market. To best achieve this and to ensure existing investors are not penalised for their investments to date, it is important that the CPM delivers a clear signal to investors in relation to future payments. In addition to this, a lack of regulatory certainty brought on by unjustified changes to the mechanism or its parameters will similarly penalise investors, jeopardising current and future investment in the SEM.

Given this situation, and given the role of the RAs in introducing volatility into the ACPS (a point addressed later in this response), it is unclear why there is a proposed change to the calculation methodology at this point in time. To the extent that the

[1] We note that costs such as gas capacity costs are not recoverable through any of the electricity market revenue streams of energy, capacity or ancillary service markets.

RAs arbitrarily adjusting the BNE calculation parameters have ceased and given the relative stability in generator type and location in recent years, one may expect stability or at the very least reduced volatility (due to enhanced predictability) to characterise the BNE cost in coming years. Regulatory intervention and/or regulatory change should not be required to protect the regulators from their own actions and to the extent that proposals forwarded are designed to do so, we contend that the problem being addressed is misspecified.

The medium term review

This timely and welcomed review of the CPM will be undermined if the RAs persist with their current approach to the work packages. We acknowledge that the RAs are attempting to undertake a comprehensive review of a wide range of issues underlying an integral aspect of the SEM and that a sequential publication of consultation papers may not only be necessary but also desirable. However, the issues being considered in the different work packages are interrelated and it is unreasonable for market participants to be asked to comment on proposed changes to elements of the CPM in isolation.

At the very least the RAs should have been open with market participants from the beginning, provide them with a roadmap of their thinking in relation to both the issues within the CPM and the post-review CPM design. This should have included changes that were being considered, the rationale for these changes and how such changes interacted with other aspects of the CPM and the wider SEM market. A failure to do so and a continuation of the current approach risks frustrating the process with proposals contained in future yet unpublished workstreams potentially affecting market participants' responses to previous workstream proposals. In effect, all market participants' responses can at best only be viewed by the RAs as '*conditional and subject to change'*, until such time as all information has been provided and all market participants are aware of all (or indeed any) of the RAs proposed changes to the current CPM and the rationale for these changes.

On an issue that fundamentally affects revenue and price stability in the market, and is to provide long-term investment signals, it is imperative for generators to have full information in order to contribute meaningfully to the review with the objective of achieving an optimal and efficient outcome. As an example of this, changes to CPM should take into account proposed changes in Ancillary Services remuneration.

The issue is best highlighted with reference to the review process to date. The first information paper as part of this review dealt with Work Packages 1 to 5. This paper dealt with historical aspects of the CPM and its performance, while also seeking comment on a number of substantive issues, including the deduction of IMRs from the BNE cost calculation. Work Package 7 has now been published for consultation (BNE Calculation Methodology) but the limited analysis presented by the RAs in relation to the options considered even fails to adopt consistency in its approach to IMRs.

In additional, issues obviously related to the calculation of the BNE (the treatment of generator types in the SEM, incentives for generators and options for caps and floors), are to be published in coming weeks/months in further workstreams. As already noted this piecemeal approach is inefficient, likely to frustrate decision making and market participants and ultimately may damage the CPM and its important function in the SEM, as well as raising again the issue of increased regulatory risk.

The concerns this approach raises extend beyond the current Medium Term Review of the CPM and compounds concerns that have been brought up by recent decisions. Firstly, the lack of joined up thinking. This is not just in relation to the different workstreams of the review, but more widely to the role of the CPM in the SEM and its interaction with the other complimentary markets for energy and ancillary services, as well as more generally the future development of the SEM.

Secondly, the lack of analysis underlying proposals forwarded by the RAs for consultation. In instances where analysis has been provided, it has frequently been incomplete and insufficiently detailed to comply with standards of best regulatory practice. Finally, the structure of this review, canvassing opinion on disparate elements of the market before formulation of the final proposal exposes the process to the risk of decisions being governed not be best regulatory practice but by those that have shouted the loudest. This risk is exacerbated by the absence or partial nature of analysis underlying such decisions.

3. Comments on the International comparison

VPE welcomes the general attempt made by the RAs to include reference to other jurisdictions to inform the policy debate. International comparisons are a frequently used tool in many areas and can provide both useful and powerful arguments for one approach over another. However, for international comparisons to inform a policy debate, care should be taken in selecting relevant comparators and systemic differences between countries should be highlighted where relevant. In the context of this review, the international comparison is at best meaningless and at worst a dangerous and irresponsible exposition of specific elements of very different market structures and market designs. Such comparisons may be of academic interest but for reasons far removed from practical (regulatory) policy considerations.

At a high level, capacity markets do not exist in isolation in each of the electricity markets of the respective countries. They are part of complex market design and market rules that incorporate energy markets and ancillary service markets, all of which are typically specifically designed to address specificities in the respective countries (e.g. historical development, generation mix, market power). Treating the capacity market of respective countries without reference to these differences may invalidate the rationale for concluding on commonalities of approach or differences observed.

In relation to the comparison presented, this paper is considering a medium term review of the CPM in the SEM. The paper puts forward, as options, four alternatives to the current CPM mechanism, none of which are either quantity or auction based capacity mechanisms. Therefore, one must conclude that the inclusion of such a comparison is redundant in the current context. Of the price based capacity mechanisms considered there is no reference made to the underlying markets, (the market rules or market structures), and there is no discussion of the performance of these mechanisms in the respective countries. If one is to consider the relative merits of a different approach, one should at least be informed as to whether it is perceived to be achieving its objectives, what the objectives are, and in what context they are being achieved.

Following on from this section in the discussion paper, there is very limited reference made to the international markets considered and the section appears largely detached from the remainder of the document. Reference is made to Spain and Columbia in discussion of Option 6 (page 22), with extended reference to the former. However, as the SEM Committee is undoubtedly aware, the Spanish market is different from the SEM in significant respects, particularly in relation to structure and generation mix. As such, without discussion of the specific issues the Spanish capacity market was designed to address in 2007 (including; legacy issues; market structure; and generation mix), reliance on an over-simplified comparison of capacity markets should, in the interest of responsible policy and regulatory developments, be avoided.

4. Options for BNE calculation methodology

The options forwarded by the RAs are presented at a very high level, more as concepts than real policy options for the calculation of the BNE. Given the level of detail and analysis provided by the RAs, it is inappropriate for them to expect meaningful involvement from market participants on this issue as they are effectively being asked to comment on such issues in isolation and without important contingent information relating to the CPM and further proposals to be forwarded as part of the review. This approach will jeopardise the consultation process and its outcomes, while frustrating both the process and those involved in it.

The objective the RAs are attempting to address through these options is increased stability in the annual capacity pot. In fact, participants are equally concerned with the need for increased stability in the approach adopted by the RAs. In recent years, allowing for changes in market conditions, the most notable changes to the BNE calculation have been changes imposed by the RAs that appeared to have as an objective the minimisation of the pot size rather than stability *per se*. The most obvious example of this was the recent change in plant life of the BNE from 15 years to 20 years. Therefore, stability of parameters and regulatory stability are related issues in relation to the CPM and all have real effects on the stability of the pot. It should not be the role of the regulator to protect themselves from their own actions.

Of the options forwarded, it is possible to make only summary comments at this stage, as well as to highlight either a significant and welcomed change in SEM Committee policy in relation to IMRs (and Ancillary Service revenues) in the BNE calculation, or a significant error in the limited analysis presented that has the effect of misleading respondents.

Option 1 (2006)

The RAs are seeking views on a proposal to value capacity based on a simple formula whereby the market 'equilibrium' price of a peaking plant is a function of Forced Outage Probability (FOP), Loss of Load Probability (LOLP), and Value of Loss of Load (VOLL). Although this approach appeals to simplicity, there are a number of inherent flaws in the merits of this approach as described by the RAs;

1. The approach does not follow economic theory. The approach is based on an erroneous interpretation of the economic concept of equilibrium and/or confusion with other non-economic concepts. By definition (in economic theory) equilibrium exists when supply meets demand and there is a market clearing price. If the proposition is to fail to serve 8 hours of load or have any amount of time wherein there is not market clearing, this cannot be an equilibrium.[2] This criticism relates to both the argument forwarded herein and to the assumption by the SEM Committee that, "*at equilibrium the BNE Peaker does earn infra-marginal rent and this should be deducted from the Annualised Cost per kW of the BNE.*" (SEM-10-046, p.23).

2. Although the RAs consult on the value of VOLL on an annual basis, there has been no study of VOLL undertaken by the RAs and therefore market participants cannot have any certainty that the administratively set value has any basis. A recent study of VOLL undertaken by the ESRI has indicated that the value of this parameter is €12,900/MWh on a weighted average all-island basis.[3] This is considerable different from the value administratively set by the RAs. Furthermore, however, the ESRI indicate in their paper that the current level of data available is not sufficient to more accurately calculate VOLL, the value of which is found to deviate substantially for different users and different times of use.

3. The RAs have indicated that given the outturn of this approach is comparable to that of the current approach, this is an indication that they are in the correct range. This raises two questions;

    a. Does this mean that the RAs are of the view that the current level is correct?

    b. And if so, on what basis is change justified?

[2] For a further more detailed critique of this approach see; Stoft, S., 2002, *Power System Economics: Designing Markets for Electricity*, IEEE/Wiley.

[3] Leahy, E. & Tol, R.S.J., 2010, "An Estimate of the Value of Lost Load for Ireland", ESRI Working Paper No. 357.

However, before one should consider these questions further, the analysis presented by the RAs raises a further more significant question relating to the proposed treatment of IMRs and Ancillary Service revenue in the BNE. Under the approach considered in this paper, the RAs propose, in equilibrium, to no longer deduct IMRs or Ancillary Service revenue from the BNE price. The BNE price presented in the discussion paper simply follows the formula and presents a comparison with the BNE value as currently calculated (including a deduction for IMRs and Ancillary Service revenue).

If one accepts the erroneous assertion of equilibrium for one moment and acknowledges that this ‘condition’ is met under both approaches, one must surely question why it is that a SEM Committee view on the treatment of IMRs and Ancillary Service revenue is followed in one example but not in the other. It may in fact be an oversight on behalf of the RAs, however such an oversight has the effect of misleading respondents and misinforming the debate. Clearly clarification of this issue is required.

Option 2 (2009)

Under this approach the RAs are considering fixing certain choice and cost (revenue) parameters of the BNE calculation for a period of 3 to 5 years. It is the RAs view that this option, “*would help provide additional stability for generators, as the BNE Costs would be tied down for a number of years.*” (p.17). However, in the absence of any analysis in support of this assertion, it is difficult to accept this proposition. Furthermore, even with such analysis it does not necessarily follow that fixing elements of the BNE cost calculation would add stability to the pot size, as doing so ignores that the BNE cost is but one element of the ACPS calculation.

If the overarching objective is to stabilise the pot size or find a balance between prevailing market conditions and the stability of the pot, both the capacity requirement and the BNE cost are determinants of the ACPS. It is therefore possible that by fixing elements of the BNE cost calculation, greater variability in the value of the ACPS is observed annually in the market. This is contrary to the objective of adopting such an approach.

In summary on this option, the RAs have limited the responses respondents can provide through the vagueness of the proposal and absence of detail on elements that may be considered to be fixed in such a calculation. Arising from this vagueness the RAs have not provided quantitative analysis of this option as the elements to be fixed have not been defined. Such analysis is necessary, even multiple scenarios, to inform the debate and allow participants comment on the effect of this proposal. Finally, it does not logically follow that by fixing elements of the BNE calculation that the overall pot size will be more stable for market participants. This is a damning implication for such a proposal and highlights the need for quantitative analysis and a full impact assessment of the options being considered.

Option 5 (2009)

The criticism of Option 2 discussed previously similarly applies in relation to this option. It is factually incorrect to assume that by fixing all or some of the parameters of the BNE calculation that this will necessary bring greater stability to the resulting calculation of the ACPS. Similarly, in the absence of quantitative analysis of this option one cannot reasonably be expected to comment on the merits or otherwise of such an approach given the risks that may be posed by boundary issues in relation to recalculation or the appropriate trade-off between reflecting market conditions and providing stability to pot size.

Option 6 (2009)

Option 6 considers a change to a Spanish-style approach whereby new entrants to the market (possibly dependent on technology type) are guaranteed a BNE price with the residual pot made available to existing generators. The RAs state that this approach "*is likely to be more effective in reducing the risk for new investors (where the real issue of volatility lies).*" (p.23). Also, that "*it could create uncertainty regarding the level of payments for existing generators, resulting in calls to increase the size of the ACPS pot or the provision of grandfathered minimum payments to existing generators to protect them from diminished revenues.*" (p.23).

This option presents a clear trade-off, prioritising new investment in capacity over existing generation. One must therefore ask whether such an approach is appropriate in the context of the current market in the SEM and broader macroeconomic conditions. At this point in time with an average capacity margin of 36%, it may not be foresight but foolhardy to seek to incentivise new capacity at the expense of existing generators and risk significant stranded costs. Such an outcome would push to new levels the regulatory risk premium in Ireland and potentially have the effect of raising the cost of capital for new investment, the opposite of the intended effect.

Reverting somewhat to the international comparisons, it is clear that the Spanish capacity mechanism was designed to incentivise new entrants into the Spanish market to try and address the market power of the incumbent duopoly. The Irish generation market structure is somewhat different and has attracted new entrants over the relatively short lifetime of the SEM such that new investment is far more likely to come from existing market participants. The creation of a residual pot for existing investors would expose them to unprecedented levels of risk in relation to this integral aspect of cost recovery for investments made to date. The result would be to jeopardise the financial integrity of existing investments, increase the cost of capital on these same investors, thus threatening the future development of capacity. Concomitant with this would be an increase in regulatory risk arising from a regulator led change in the capacity mechanism designed to expose existing investors in the market to unprecedented levels of risk.

Furthermore, given the generation mix in Spain and the abundance of opportunities to develop hydro, wind and solar energy, and the subsidies available to do such, the design of the capacity mechanism faced issues that on the face of it may appear similar to the SEM but are very different in scale in terms of the need for conventional generation. Particularly if one considers the considerable period of underinvestment in Spain, the need for flexible thermal plant, and the difficulties imposed on the market by the continued subsidies offered to the domestic coal sector.

As previously noted, international comparisons can be useful tools as part of policy development but failure to adequately account for differences and select relevant comparators may have unintended detrimental effects on the debate. In failing to address these differences and in the absence of any quantitative analysis of this option, one can only comment that substantial further work is needed before respondents can reasonably be expected to comment on this option. The RAs comment on this issue in the paper by stating, "*[L]ater on in the next work package the RAs will look at developing this scenario in line with Poyry and investigating and what impact it would have on a future model if the SEM*." (p.23).

Not only does this indicate the inherent difficulty for respondents to comment meaningfully on this option in the absence of analysis, it highlights the inappropriateness of the structure of the current review and urgent need for this to be address such that the review and those involved are not frustrated by this organisational failure.

We would also call on the RAs to define the question they are seeking to address in proposing this option and how this thinking is consistent with both the current market and the improvements this option is seen to have over the existing methodology (and/or other options).

On the issue of indexing, to the extent that it is to be used in future calculation of BNE cost we would urge that a published and widely accepted measure of inflation is used. Proprietary or commercial indices should be avoided as should narrowly defined measures that are more likely to be at risk of wide variations that are unrelated and inconsistent with the actual costs one is seeking to index. A measure such as the HICP would largely be consistent with our preliminary views on this issue.

5. WACC and alternatives

Firstly, it appears necessary to highlight the difference between WACC and valuation methodologies. This paper does not offer alternatives to WACC, in fact it offers alternative methods to valuing the BNE cost, (such as DCF and APV), that similarly rely on WACC in their calculation. WACC is a discount rate and as such is regularly utilised in DCF and APV analysis.[4] Consideration given to using an alternative discount factor would apply equally to all valuation methodologies; DCF, APV and the current approach.

On the calculation of WACC, there has been significant change in the value of the discount rate applied in successive price controls. To the extent that these changes reflect underlying market conditions and are driven by the prevailing adverse macroeconomic conditions, this is considered appropriate. However, it has been the case that the WACC values contained in the BNE cost calculation do not appear to be reflective of the prevailing costs of financing available to rational private investors, the relevant yardstick for WACC. RAs have used integrated utilities which typically use balance sheet financing as the basis for many of the WACC assumptions. This approach includes an inherent bias towards semi-state companies, as the vast majority of investors use project financing, and don't have the luxury of semi state entities, backed by Government guaranteed.

Given WACC is a discount rate and principally based on underlying market conditions, it is important that this remains the case. Apart from reasons outlined previously in relation to the potential futility of fixing all of some of the BNE cost parameters, fixing or smoothing the WACC value is something that at this stage one would consider inappropriate.

6. Conclusions

VPE welcomes the RAs Medium Term Review of the CPM but are concerned at the piecemeal manner in which it is being conducted. We acknowledge that this is a comprehensive review of an integral aspect of the SEM and that the sequenced publication of consultation papers may in fact be desirable but such an approach needs to be complimented with appropriate guidance from the RAs. The absence of an overarching objective of the review or identification of specific issues to be addressed, as well as the RAs current thinking on how to address these issues are all currently absent from the process.

In persisting with this approach it has as a result the need for respondents to caveat the majority of their views on proposals being forwarded as being '*conditional and subject to change*' once all information and proposals in relation to the review have been made public. Clearly a subsequent consultation would need to take place at this time, after which the RAs would, for the first time, receive the considered views

[4] Whereas DCF analysis generally uses a calculated WACC value as the relevant discount rate, the APV method utilises the cost of equity from a WACC calculation, typically based on CAPM, given the somewhat more restrictive assumptions underlying this approach.

of market participants. It is therefore VPE's view that the current piecemeal approach adopted by the RAs is unreasonable, inefficient and potentially damaging the function of capacity payments in the SEM. Although a sequenced publication of consultations may be considered preferable to the alternative, it is incumbent on the RAs to provide a framework of issues and proposals at the outset as failing to do so will frustrate both the RAs, market participants and the consultation process more generally.

The RAs need to acknowledge the interrelatedness of the different work packages identified as part of this review and present reasoned accurate analysis of the issues and proposals with the current CPM. At a higher level the RAs need to also acknowledge the interactions between the capacity, energy and ancillary service markets, and indicate an understanding of this in the consultation papers.

On the use of international comparisons, we caution that such assessments of comparative mechanisms be undertaken with due consideration for relevant comparators and how such comparisons can inform the wider review of the CPM in the SEM. The comparative assessment presented in this paper is lacking in this regard.

On the options forwarded in this paper, it is not possible for market participants to give due consideration to them as they are lacking both in detail and quantitative analysis. On the limited analysis presented the RAs should immediately clarify the appropriateness of the comparison made between Option 1 (2006) and the current mechanism. Specifically does this indicate a change in the SEM Committee view on IMRs and Ancillary service revenue, or is a mistake that has the effect of misleading the reader. Furthermore, some of the options are based on a flawed logic in relation to the assumed impact of fixing all or some of the elements in the BNE calculation. This flaw in the logic of the approach can be found to produce results contrary to those intended.

Furthermore, given many of the recent and significant changes to the BNE calculation have been changes to underlying parameters introduced by the RAs, (such as the unexpected change to the asset life assumption from 15 to 20 years), arguments forwarded by the RAs for fixing of all or some of these parameters can be seen to be specifically designed to prevent the RAs from introducing such changes in the future. Notwithstanding the flawed stability assumption underlying such an approach, it should not be necessary for the RAs to protect the market from regulatory decisions that are not consistent with the objective of regulatory policy. Best regulatory practice should ensure such a situation does not arise. It should also ensure that the CPM is not compromised by external factors, political or otherwise, that have alternative and contrary objectives. RA led changes to the CPM that appear to have been focussed on minimising pot size rather than ensuring the pot adequately fulfils its function have unfortunately already been observed and are clearly not consistent with the role of the CPM in the SEM or with best regulatory practice.

It is important that as part of this review the RAs attempt to address concerns with the current CPM but above all the RAs need to ensure the CPM is not compromised in its ability to provide for its primary function, the incentivisation of new capacity and most importantly in the current market, the remuneration for large fixed investments already made. Today's market participants are most likely to be tomorrow's investors and in acknowledging this, it is important that regulatory decisions do not adversely affect the financial standing of existing investors. Regulatory uncertainty, brought on by unjustified and/or inappropriate regulatory change, increases the cost of capital for investors.

Consideration in relation to the introduction of a residual pot for existing investors is a profound example of this. Such an approach fails to recognise the characteristics of the SEM market and the role the CPM plays within it, and would expose existing investors to unprecedented levels of financial risk. This would place a significant barrier on renewed investment through higher costs of capital and access to funding by penalising those most likely to make investments in the future. Also, such a move would significantly increase the regulatory risk premium associated with investing in the SEM for all investors, given the perceived willingness of the regulators to disregard the financial integrity of existing investments.

In addition to this the RAs arbitrary adjustments of CPM parameters have already contributed to an increase in regulatory risk. As a result, the review should look to address both increased certainty for market participants in relation to capacity payments and increased stability in a regulatory approach that is targeted at delivering the objectives of the CPM, and not other objectives political or otherwise.

From the significant issues highlighted herein it is clear that a substantial amount of further work is required from the RAs (and their consultants) and we urge them to immediately address these issues both in relation to this paper (WP7) and the overall approach to the Medium Term Review. It is important to reiterate that we acknowledge the extensive and comprehensive review of the CPM that is being undertaken and that a sequenced publication of consultation papers may be a preferred approach. Such an approach is not necessarily piecemeal, however the manner in which the RAs have initialled this review can only be described as piecemeal and continuation of this approach, without identification of the key issues and initial proposals for change to address them, risks frustrating the RAs, market participants, and both this consultation and consultations more generally.