

Joint Submission by Forfás/IDA Ireland/ Enterprise Ireland on the Medium Term Review of the CPM (Work Package 7)

November 2010



The development agencies, Forfás, IDA Ireland and Enterprise Ireland, represent the interests of the internationally trading business sector in Ireland. The reported exports of all agency-assisted firms accounted for 86 per cent of total Irish exports in 2009. Total employment in agency-assisted companies operating in the manufacturing or internationally traded services sectors amounted to 272,053 in 2009.

The enterprise development agencies (Forfás, IDA Ireland and Enterprise Ireland) welcome the opportunity to comment on the regulators' discussion paper (work package 7) on the medium term review of the capacity payment mechanism (CPM). The introduction of the single electricity market (SEM) in November 2007 was an important development and has led to greater efficiencies in electricity generation. However, it is timely to review the market rules to ensure the optimal functioning of the electricity market.

Generating sustainable export-led growth is essential to rebuilding our economy. A reliable and competitively priced supply of energy is critical for business and its ability to compete successfully in international markets. Ireland's ability to maintain our existing export base, to continue attracting high levels of foreign direct investment and to provide a supportive environment for Irish enterprise generally is dependent on our capacity to deliver a more secure and sustainable energy supply while ensuring a sustained improvement in Ireland's relative cost competitiveness .

Although industrial electricity costs have fallen significantly in the past two years, the decline is unlikely to be sustained as it is largely due to the steep fall in global fuel prices (gas and coal) and temporary subsidies which are to be phased out by the end of 2012. Therefore we must ensure that action is taken to achieve more long lasting structural competitiveness gains. The medium term review of the CPM provides an opportunity to ensure the SEM is functioning optimally to the benefit of electricity consumers.

The development agencies agree that the SEM is working well and support the SEM objectives as outlined in the discussion paper. We also agree with the regulators that the concept of the CPM should remain in place but that its design should be reviewed to ensure that it incentivises investment in new generation capacity to ensure security of supply in the longer term while minimising the impact on costs for energy users.

The analysis of international experience in delivering adequate capacity to inform the CPM review is also welcome. However, the discussion paper focuses on the impact on investors/generators with little consideration given to the implications of the various options for electricity consumers – even though protecting consumer interests is one of the main SEM objectives. The development agencies recommend that the forthcoming detailed consideration of Option 6 should address its advantages and disadvantages for both market players and consumers.

From an enterprise development perspective, the main principles that should underpin the design of CPM include:

- incentivising investment in new, efficient plant, especially flexible plant while also encouraging the closure of old inefficient plant;
- ensuring that it does not lead to over investment in new plant which would result in unnecessarily higher costs for consumers;
- guaranteeing a BNE price only to conventional generators - as stated in the discussion paper, incentives for renewable generators already exist through REFIT and the Northern Ireland renewables obligation scheme;
- adjusting the guaranteed BNE price for reliability to ensure that consumers are getting value for money; and
- ensuring that the period of the guaranteed price for new entrants does not incentivise investment in new generation at the expense of long term cost competitiveness.

The development agencies welcome the careful assessment of the parameters and assumptions underpinning the calculation of the weighted average cost of capital (WACC) and the commitment

to ensure that the process is transparent. However, the regulators and their consultants need to ensure that the implications for Ireland's relative cost competitiveness are fully considered when determining the WACC value. In particular, it is critical that the WACC parameters are in line with relevant international best practice and that this is clearly set out in the forthcoming work package on the impact of the CPM on customers .