



# **EirGrid Group Response To CPM Medium Term Review Draft Decision Paper – SEM-11-088**

**January 13<sup>th</sup> 2012**

## Summary Position

EirGrid, comprising the Transmission System Operator (TSO) in Ireland (IE), the System Operator Northern Ireland Ltd. (SONI) in Northern Ireland (NI) and the Single Electricity Market Operator (SEMO), welcomes the opportunity to respond to the Draft Decision on the Capacity Payment Mechanism (CPM) Medium Term Review consultation. EirGrid, SONI and SEMO support the Regulatory Authorities' objectives for the CPM of adequacy, stability, simplicity, transparency, efficiency and fairness and believe these should guide the outcome of the SEM Committee decision on this review of CPM.

EirGrid believes that decisions made from the CPM medium term review need to be cognisant of the work that is ongoing in other SEM Committee work streams. EirGrid recognises that the SEM Committee's principal objective in relation to the SEM is to protect the interests of consumers on the island, and EirGrid appreciates that any decisions taken in the context of the SEM must be balanced and consistent. EirGrid would support a plan to integrate the work streams with a specific focus on revenue in order to achieve the best outcome in the interests of the consumer.

EirGrid support the draft decision that no substantive changes will be made to the mechanism at this juncture; however in light of current work on Intra Day Trading (IDT), System Services as part of the DS3 – delivering a secure sustainable electricity system and the Market Integration project, there may be a requirement to revisit this process as appropriate.

EirGrid believes that the variable component of the CPM undermines the signal for availability in the ex-post and also adds a significant level of complexity to the mechanism. Therefore, it was and is our view that the dual objectives of the SEM could be better met with a combination of fixed and ex-post capacity payments and that the variable component is not required. Based on this rationale EirGrid recommended that the fixed capacity payments proportion be increased to 50% and the ex-post capacity payments proportion be increased to 50% effectively reducing the variable capacity payments proportion to 0%.

EirGrid support the draft decision to increase the FPF to 0.5 but only in conjunction with the reduction of the variable capacity payments proportion to 0%. If the variable proportion is set at a value other than 0% EirGrid would recommend retaining a value of 0.35. The change to the FPF in isolation may not have the desired effect. It may result in a shift in payments across technology types therefore it requires consideration in terms of the overall cost to the consumer. Recent studies<sup>1</sup> by the TSO indicate a transfer of monies between technology types as a result of increasing the FPF to 0.5.

EirGrid would like to emphasise the need to place appropriate value on System Services and the current and future importance of System Services with regard to its relationship to the CPM, resulting from the

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<sup>1</sup> Proposed Value for the Flattening Power Factor for the Year 2012

mechanism for determination of the Annual Capacity Payment Sum (ACPS). In addition EirGrid would like to reiterate our commitment to the ongoing work on IDT and the Market Integration project.

As stated above and previously, the final decision needs to be cognisant of the wider issues discussed here and in our previous responses to the CPM Medium Term Review. EirGrid would be happy to meet with the Regulatory Authorities to discuss any aspect in detail of our response to the Draft Decision on the CPM Medium Term Review.