

Jody O'Boyle,  
Utility Regulator  
Queens House  
14 Queen Street  
Belfast  
BT1 6ED

Your reference SEM/11/088

13 Jan 2012

Dear Jody,

### **Consultation on CPM Medium Term Review Draft Decision**

ESB PG welcomes the opportunity to respond to RA proposals contained in the Consultation paper on a Draft Decision (SEM/11/088). We recognise and appreciate RA efforts to facilitate direct meetings and extend consultation deadlines to date.

#### **General Comment:**

ESB PG strongly endorses the NEAI submission on this draft decision and we would urge the SEM Committee to take on board the serious concerns of its members. Of particular concern is the draft decision to alter the mechanism for calculating the deduction of IMR. The significance of this change is underlined by a potential 9% reduction in the overall capacity pot and it certainly goes beyond ESB PG's expectations of the level of materiality expected from our interactions with the RAs during this entire consultation process and would not consider the change to be 'minor' in nature as described by the SEMC.

#### **Specific Comments on Executive Summary:**

##### Forced Outage Probability

ESB PG welcomes the use of a more realistic FOP, based on historic FORs and calls for a clear and transparent process for its ongoing calculation.

##### Deduction of IMR:

ESB PG remains strongly opposed to the adoption of Option 2, as it believes that the level of deduction specified is not reflective of a level of IMR that can be achieved in SEM. Were the SEMC minded to proceed on this basis, ESB PG would welcome the opportunity to revert to the SEMC with suggested modifications to the proposal, to reflect a more realistic and achievable level of IMR.

##### BNE will remain constant for 3 years

ESB PG supports the added stability and certainty that this option brings over the existing regime, but has concerns regarding step changes to the CPM. Option 2 as provided for in the consultation, is our preferred compromise of conflicting objectives.

#### Timing and Distribution of Capacity Payments

ESB PG is in favour of the proposed recommendation to increase the Flattening Power Factor to 0.5. This is very much a subjective exercise of compromising between often conflicting objectives, but ESB PG agrees that the mechanism has to date probably given excessive weighting to predictability of payments over the year as contrasted with cost (or value) reflectivity. This draft recommendation goes some way towards addressing that imbalance.

#### **Specific Comments on Decisions in Specific Work Packages:**

##### Work Package 4: BNE Peaker Plant Fuel Options

ESB notes the SEMC's previous view on the lack of liquidity in the gas transmission capacity, suggesting that an annual strip would be the relevant capacity to buy.

Given the introduction of short term products that are priced by Gaslink to ensure that they get sufficient long-term signals but allow network users procure capacity economically, the ability and indeed the level of trade in the capacity market has increased.

ESB now urges the SEMC to include the impact of these alternative arrangements on the BNE pricing calculation as part of its continued assessment.

##### Work Package 6: Treatment of Generator Types in CPM

ESBPG is in agreement with SEMC's draft decision in this workstream with the exception of the following: ESB PG remains of the view that Capacity Credits for generator types economically rational but would be problematic in SEM at present and constitute a major change to CPM.

Given the above, it is ESB PG's view that the rebalancing scenario would allocate more correct value to generators for their contribution to system adequacy (per Work Package 9) and represents a far less significant change in the design and believe it is worthy of further consideration.

##### Work Package 7: BNE Calculation Methodology

ESB PG remains of the view that Option 5 will result in step changes in the CPM mechanism, and therefore agree that it should be retained for a maximum of 3 years. Option 2 is, in our opinion, a better trade-off between stability/transparency and cost reflectivity. It is however, very much, a subjective exercise.

##### Work Package 8: Incentives for Generators

ESB PG supports the SEMC's draft decisions in this area given the need for CPM to be further revised by 2016 in light of CACM.

##### Work Package 9: Timing and Distribution of Capacity Payments

ESB PG is in favour of the proposed recommendation to increase the Flattening Power Factor to 0.5. ESBPG also believes that a move to a 50:50 ex-ante/ex-post weighting is a better allocation of the capacity taking into account the conflicting

objectives of the mechanism. As the SEMC state, this is very much a subjective exercise of compromising between often conflicting objectives, but ESB PG agrees that the mechanism has to date probably given excessive weighting to predictability of payments over the year as contrasted with cost (or value) reflectivity. This draft recommendation goes some way towards addressing that imbalance.

Should you have any queries in relation to the above response please do not hesitate to contact me.

Yours sincerely,

John Lawlor  
Manager, Strategic Regulation  
Strategy & Regulation