

To:
Mr Jody O'Boyle
NIAUR
14 Queen Street
Belfast BT1 6ER

**Submission regarding Draft Decision Paper on CPM
Medium Term Review (SEM-11-088)**

Dear Jody,

Lumcloon Energy Limited welcomes the publication of this Draft Decision Paper on the CPM Medium Term Review (SEM-11-088), and is pleased to have the opportunity of making a submission on it.

We agree with and support the four key proposals listed namely:

1. Increase in FOP

The increase in the FOP from 4.23% to 5.91% is a prudent recognition that the FOP previously used in calculating the BNE was lower than the average FOP on an All-Island basis. The proposed FOP increase therefore results in a more realistic capacity Requirement.

2. Formula for determining the IMR

The introduction of a stabilising formula for determining the IMR in the BNE calculation is very welcome. The current arrangement whereby the IMR is low in a year when there is high capacity margin and hence results in a higher capacity payment – and vice versa when there is a low capacity margin – is entirely the wrong signal and is contrary to economic principles; a low capacity margin should result in a higher capacity payment and vice versa. The proposal in this Draft Decision Paper addresses this issue and is therefore very welcome.

3. BNE Constant for 3 Years

The onset of European Market Integration and the SEM's requirement to facilitate Day Ahead and Intra Day Trading by 2016 sets an appropriate milestone for the BNE methodology. It is therefore prudent to employ a 3-year timeframe for the BNE, during which there will be a reasonable degree of certainty for the short term. However, it must be stressed that this timeframe does not provide the level of certainty required to enable new investment in flexible plants to support largescale wind build.

4. Timing and Distribution of Capacity Payments

We support the increase of FPF to 0.5, which sharpens plant availability incentives for generators. We support retaining the 30%, 40%, 30% capacity weighting components until there is stronger evidence that change is warranted in this area.

Potential Impact of Ancillary services Payments on CPM/BNE Calculation

This is an area of significant concern for generators, both existing and new, in the future. Currently a review of System Services is underway with the recent publication of the document “DS3: System Services Review Preliminary Consultation”. While the IMR has been addressed and a formula proposed we feel the issue of Ancillary/System Services and its potential impact on the BNE calculation should include a specific proposal or reference in the Final Decision Paper.

There has been some degree of stability in the level of AS payments in the BNE calculation in recent years, e.g. €4.84 per kW pa in 2010, €4.41 in 2010 and €4.32 in 2010. These payments are for the current AS of reserve, reactive power and black start. However, in the future it is likely that a whole range of newly identified AS will be required with presumably correspondingly appropriate payments. It is crucial that these do not undermine the stability of the CPM/BNE calculation.

In the Draft Decision paper, the Regulatory Authorities “*believe that the CPM is tailored to ensure that it would pay a Best New Entrant (BNE) peaker generator at a sufficient rate to cover its long run costs, given forward looking estimates of its running and all its other revenues*”. The BNE peaker has been chosen in the past to be a lower capital cost Grid Code compliant machine to meet a capacity requirement. Existing AS revenues are driven from Grid Code requirements and can largely¹ be earned by all synchronised dispatchable generators. In the future the new breed of flexible plants will be significantly more complex with higher capital costs to deliver the type and level of new system services required. Only a new breed of machines – or existing machines with significant refurbishment – is likely to be able to access all potential AS products. We urge that the Final Decision contain the following principles.

- The current methodology of treating AS in the BNE calculation should be continued for the 2013 calculation. Further Grid Code required² remunerated services – available to all dispatchable synchronised generators – arising from the DS3 consultation should be considered in the BNE calculation; and
- New system services payments that are specific to particular plant on the system should not be considered in the CPM/BNE calculation.
- The BNE should continue to be a plant to meet a capacity requirement, and no be tailored to maximise AS revenue

We believe this approach is necessary so that the proposed stability of the 2013/2015 CPM/BNE methodology is not undermined. The above principles also ensure that the

¹ With the possible exception of Black Start

² That is, where most existing generators are not exempted from providing the new services

review of System Services is not constrained in developing a payments regime for any future new/enhanced system services.

Sincerely Yours

Eileen O'Rourke
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Nigel Reams
Lumcloon Energy Limited

Date: 13th January 2012