



**Response by Energia to the Regulatory
Authorities Consultation Paper SEM-13-064**

***Single Electricity Market Capacity Payments
Mechanism FCPPy and ECPPy for Trading Year 2014***

23 October 2013

1. Introduction

Energia welcomes this opportunity to respond to above consultation SEM-13-064 on the capacity payment proportion parameters (FCPPy and ECPPy) for the 2014 trading year.

2. Discussion

It is well established that generators aim for high availability at all times as opposed to reacting to capacity payment signals associated with specific trading periods. Generators are unable to respond to the ex-post capacity pricing signal and its current weighting needlessly exposes generators to excessive risk akin to a lottery effect. From this perspective, the distribution allocation should be more heavily ex ante weighted.

A key focus of the consultation paper SEM-13-064, and a question EirGrid has been asked to consider, is whether the current payment proportions in the capacity mechanism are a potential barrier to trade on the interconnectors. It is right to ask this question but clearly this should not be the only consideration in determining the appropriate balance between ex ante and ex post payments.

EirGrid's analysis exploring how capacity payments influence trading on the interconnector has limitations which are self-identified to a large extent; e.g. it is based on only 2 months of data and does not account for a number of other factors that may *strongly influence* trading behavior. On the latter note, we would encourage the RAs and EirGrid to discuss the analysis and its interpretation with us and other IC users before undertaking further work.

Notwithstanding the acknowledged need for more detailed analysis there appears to be a degree of misunderstanding between correlation and causation in the interpretation of evidence presented. The following rather confident conclusion is particularly surprising and is contrary to our understanding based on IC trading:

"The analysis seems to suggest that the ex-post proportion of Capacity Payments is providing the correct incentives, and does not represent a barrier to trade. However, the ex-ante portion, which has been as high as €7/MWh at times of wind curtailment, could be influencing economic trading on the interconnectors. If a greater proportion of the capacity payment were applied ex-post, this effect would be reduced".

Based on our considerable experience of IC trading, Energia would suggest that increasing the ex-post proportion of capacity payments will only increase the 'dead band' in which trades do not occur.

We would be happy to discuss in more detail the high level points raised in this response, and, as stated above, we would encourage the RAs and EirGrid to discuss their analysis and its interpretation with us before undertaking further work.