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23rd October 2013

SEM-13-064 – Capacity Payments Mechanism, FCPP_y and ECPP_y for Trading Year 2014

Dear Kenny

SSE welcomes the opportunity to respond to the SEM Committee's consultation paper on the fixed and ex-post capacity payments proportion parameters. We actively trade between the BETTA market and SEM, and believe that the current values for certain parameters used in the calculation of Capacity Payments and Capacity Charges act as a barrier to efficient use of the interconnector.

As set out in Article 16 of Regulation (EC) No 714/2009, the maximum capacity of the interconnections and/or the transmission systems affecting cross-border flows should be made available to market participants, complying with safety standards of secure network operation and that network congestion problems shall be addressed with non-discriminatory market-based solutions which give efficient economic signals to the market participants and transmission system operators involved.

The TSOs report on the effectiveness of the current payment proportions appears to favour a greater ex-post payment proportion, which may reduce the cost of TSO balancing actions and curtailment of wind generation. It notes that:

- For some IUs, there is a positive correlation between forecast demand and interconnector nominations, and nominations and forecast LOLP. However, the remaining IUs show no correlation with any of the market parameters listed above.
- The ex-post portion of Capacity Payments appears to be providing the correct incentives and does not represent a barrier to trade. However, the ex-ante capacity payments provide an incentive to import power into the SEM and a disincentive to export power.

We would make two points in response:

- The commercial decisions underpinning the trading behaviour seen on the Interconnector is a matter for those market participants. The TSO and RAs role is to make the maximum capacity of interconnection affecting cross-border flows available to market participants. If IUs do not respond to economic signals, that may reflect their risk management strategy, or some other commercial decision.
- While market participants estimations of the capacity payment can take demand and available generation into account through forecasts, this is not possible when generation exceeds demand in a trading period, as it does when the TSO is exporting wind. This has a significant impact on a market participant's ability to accurately estimate ex post capacity payments, and therefore represents a barrier to trade.

The current parameters (*or any parameters where a substantial proportion of the capacity payment have to be inferred by market participants*) can potentially restrict the amount of interconnection capacity utilisable by market participants. SSE would therefore recommend that the ex-ante payment proportion is gradually increased as the SEM moves toward full market coupling in 2016. If you have any queries regarding our response, please don't hesitate to contact me.

(sent electronically)

Connor Powell (Regulation, Ireland)