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Ibec views on the Capacity Remuneration Mechanism Detailed Design

Dear Brian, Dear Thomas,

Ibec, the group that represents Irish business, welcomes the opportunity to respond to the Capacity Remuneration Mechanism Detailed Design consultation paper.

The decision to retain a Capacity Remuneration Mechanism (CRM) is correct given the need to provide a stable regime for a small, relatively isolated island system with certain inbuilt safeguards both for end users and investors.

Eligibility and intermittent generation

While the consultation paper notes the economic efficiencies resulting from different technologies competing on an equal basis to provide capacity, as detailed in section four certain forms of capacity may be excluded from participating in the CRM.

Assuming CRM bidding is discretionary rather than mandatory, and that intermittent generators are eligible to participate, some may be reluctant to bid if they cannot guarantee they can generate when called upon (resulting in penalties). If wind generators are unlikely to bid into CRM, net savings to consumers may be zero if the Public Service Obligation increases as a result. However this depends on whether average wholesale prices received by wind farms exceed the Renewable Feed in Tariff (REFIT) - another area of uncertainty, given the unwillingness of wind generators to participate in the day-ahead market (DAM) given the commercial risks stemming from potential inaccuracies in forecasting.

As noted in the consultation paper, the Department of Communications, Energy and Natural Resources will need to consider interactions with the I-SEM energy and capacity markets in designing new renewable electricity support, and the impact on the rollout of renewables in the Republic of Ireland.

We would welcome an opportunity for further engagement as options are narrowed and modelled, with some indication of impacts on the consumer.

Demand Side Participation

As acknowledged in the consultation paper, it has been argued that unless specific provisions are included to assuage the concerns of DSUs, they could be at a disadvantage relative to generators. One example cited is the limited ability to hedge out risk whenever the reference price exceeds strike price (among other reasons). While the paper considers the inclusion of an additional performance incentive mechanism such as scarcity pricing to mitigate DSU barriers to entry, we look forward to further information on how it would operate in practice.

Conclusion

In conclusion, our Large Energy Users would welcome another meeting with the Regulatory Authorities as the CRM consultation process progresses. Given the high degree of technical complexity in the consultation documents we would like to better understand the likely impact on end-users.

Yours sincerely,

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Catherine Joyce-O'Caollai
Senior Energy Policy Executive