I-SEM – Capacity Remuneration Mechanism - Detailed Design (SEM-15-044)

Moyle Interconnector Ltd response

August 2015

Moyle Interconnector Ltd (Moyle) notes the considerable progress that has been made developing the Integrated Single Electricity Market and welcomes the opportunity to respond to this consultation paper on Capacity Remuneration Mechanism. Moyle has limited comment on this paper and looks forward to the next consultation paper on this topic where we understand that the role of interconnectors and cross border participation will be considered.

Strike Price

Moyle notes and agrees with the statement that the strike price should be set sufficiently high that difference payments are only made when all available capacity is required.

In addition, a strike price that is too low would become an effective price cap that would frequently affect the market price because capacity providers would have no incentive to bid above the strike price (assuming their entire capacity is linked to a Reliability Options, which could easily be the case).

Considering the interconnectors, a low strike price in I-SEM might have the effect of dampening the market price while the GB market price continues to fluctuate in response to supply/demand given that the design of the GB capacity market will have no impact on prices. In that situation during times of I-SEM system stress optimal flow across the interconnectors might not be achieved as the pricing signals may not be correct.

Regarding the choice of reference unit, Moyle recommends selection of an existing peaking unit (or an average/aggregate from a number of existing peaking units) as representative of the current system, as opposed to a theoretical best new entrant plant. With the latter approach there is increased risk of setting the strike price too high or too low relative to the current fleet which would reduce the effectiveness of the Capacity Remuneration Mechanism.

Market Reference Price

Moyle notes and agrees with the arguments presented for use of the Day Ahead Market (DAM) price as the Market Reference Price (MRP).

In particular:

- With use of the EUPHEMIA algorithm to assist efficient scheduling, basing the MRP on the DAM provides an incentive for all genuinely available capacity to bid into the DAM so that the result of the EUPHEMIA algorithm is optimal, promoting efficient use of the interconnectors. This is a key objective of the market design.
- Using the Balancing Market price for the MRP could lead to sub-optimal scheduling and use of interconnectors if generation is held back from the DAM.

- The DAM is likely to be the primary and most liquid spot market, so capacity providers would have the confidence to capture the DAM price to back up their liability, with a full hedge available if CfDs are also written against the DAM.
- Assuming the Financial Transmission Rights are referenced against the spread between GB and ISEM DAMs, use of the DAM MRP would simplify cross-border trading.

Moyle looks forward to reviewing further consultations on I-SEM design.