



Single Electricity Market

Capacity Payments Mechanism FCPP_y and ECPP_y for the Trading Years 2016 & 2017

Decision Paper

6th November 2015

SEM-15-092

1 CONTENTS

1	CONTENTS.....	2
2	PURPOSE OF CONSULTATION.....	3
3	BACKGROUND.....	3
4	TSO REPORT	4
5	CONSULTATION	4
6	RESPONSES TO CONSULTATION	Error! Bookmark not defined.
7	DECISION.....	5

2 PURPOSE OF DECISION

The SEM Trading and Settlement Code requires the Regulatory Authorities (“**RA**s”) to determine, on an annual basis, values for certain parameters in relation to the calculation of Capacity Payments and Capacity Charges for the following year. These parameters include:

- Fixed Capacity Payments Proportion ($FCPP_y$), such that $0 \leq FCPP_y \leq 1$;
- Ex-Post Capacity Payments Proportion ($ECPP_y$), such that $0 \leq ECPP_y \leq (1-FCPP_y)$

3 BACKGROUND

In December 2006 the RAs issued a Decision Paper titled ‘Capacity Payment Factors’ ([AIP-SEM-231-06](#)). This paper sets out detail on these factors, including the proposed values for 2016 and 2017. These values have been consulted upon annually since 2007, but have not been changed and are currently as follows:

$$FCPP_y = 0.3$$

$$ECPP_y = 0.3$$

The Fixed Capacity Payments Proportion (“**FCPP**”) sets the proportion of each monthly Capacity Period Payment Sum to be allocated on a fixed basis. This is based on a demand forecast and the payments are set before the start of the year.

The Ex-Post Capacity Payment Proportion (“**ECPP**”) sets the proportion of each monthly Capacity Period Payment Sum to be allocated according to the ex-post Loss of Load Probability (“**LOLP**”) in each Trading Period in the month. The payments are determined after the end of each month.

A third value, the Variable Capacity Payment Proportion (“**VCPP**”) is implicitly derived from the values of the FCPP and the ECPP. This is set such that:

$$FCPP + ECPP + VCPP = 1$$

i.e. since 2007 VCPP has been set at 0.4

The VCPP sets the proportion of each monthly Capacity Period Payment Sum to be allocated according to the forecast LOLP for each Trading Period in the month. These payments are determined before the start of the month.

4 TSO REPORT

Capacity Remuneration Mechanisms (“**CRMs**”) was the subject of much scrutiny across Europe in 2012 and 2013. In particular the European Commission issued a consultation on generation adequacy and capacity mechanisms¹ and ACER has provided an opinion to the European Parliament on CRMs². One of the messages coming from the on-going CRM consideration is that where CRMs are in place they should not distort cross border trade.

On 27 June 2013, the RAs wrote to the Transmission System Operators (“**TSOs**”) asking them to produce a report on the effectiveness of the current payment proportions and the potential impact any changes to these proportions might have.

Within the report, the TSOs found:

- The ex-post proportion of payments did seem to provide the correct incentives and did not represent a barrier to trade;
- The ex-ante portion could influence economic trading on the interconnectors. If a greater proportion of the capacity payment were applied ex-post, this effect could be reduced.
- On a whole, the present CPM is providing the correct signals to generators to reward generation availability at times of stress on the system.

5 CONSULTATION

A consultation took place on 22 September 2015 (SEM-15-069) regarding the values for $FCPP_y$ and $ECPP_y$ for 2016 and 2017. Within the consultation, the RAs stated that they did not believe that there was sufficient evidence available to suggest a change from the current payment proportions.

The proposed payment proportions for 2016 and 2017 were therefore:

$FCPP_y$ for 2014 = 0.3

$ECPP_y$ for 2014 = 0.3

¹http://ec.europa.eu/energy/gas_electricity/consultations/doc/20130207_generation_adequacy_consultation_document.pdf

²http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Opinions/Opinions/ACER%20Opinion%2005-2013.pdf

The VCPP was thus implicitly proposed to be retained as:

$$\mathbf{VCP\textsubscript{P}_y \text{ for } 2014 = 0.4}$$

Responses were sought on two issues:

- Should the payment proportions for 2016 and 2017 remain the same as those for 2015?
- What considerations should the RAs take into account when determining the factors for 2016 and 2017?

6 DECISION

Having had no responses to the consultation, the RAs have determined, in line with the proposals contained in the consultation paper, to retain the existing settings for FCPP and ECPP for both Trading Years 2016 & 2017.

The payment proportions are therefore set to:

$$\mathbf{FCPP\textsubscript{P}_y \text{ for } 2014 = 0.3}$$

$$\mathbf{ECPP\textsubscript{P}_y \text{ for } 2014 = 0.3}$$

The VCPP is thus implicitly retained as:

$$\mathbf{VCP\textsubscript{P}_y \text{ for } 2014 = 1 - FCPP\textsubscript{P}_y - ECPP\textsubscript{P}_y = 0.4}$$