



Integrated Single Electricity Market (I-SEM)

**Capacity Remuneration Mechanism Detailed Design
Third Consultation Paper
SEM-16-010**

A Submission by EirGrid and SONI

27th April 2016

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1 EXECUTIVE SUMMARY

EirGrid and SONI welcome the SEM Committee's third consultation on the detailed design of the Capacity Remuneration Mechanism in the I-SEM.

A sealed bid auction with a demand curve set at price cap and sloping to zero around the capacity requirement represents the most suitable design for CRM auction in our view. Sealed bid auctions are simple, efficient and contribute to mitigating market power. Descending clock auctions, which are used in a number of markets across the world, are more prone to market power issues and considering the levels of market concentration in Ireland and Northern Ireland may not be the best option. The complexity of combinatorial auctions in our view outweighs the benefits of such an approach.

When considering the proposals set out in the paper around the lumpiness issue, option 3b, with pay-as-cleared for in-merit units and pay-as-bid for out-of-merit units, appears to be a reasonable approach. However, the design of the auction system and the efficient clearing of the auction become more complex with this approach. An auction design that allows for a partial acceptance approach would, in our view, be more straightforward to implement, though it is recognised that this approach may require some arrangements to ensure the viability of the last unit (partially) scheduled.

We believe that it is prudent to allow flexibility in the timing of the auctions. This could potentially enable the staggering of the auctions, with the first T-1 auction to take place in June 2017, before the operation of the T-4 auction. This would ensure that lessons learned during the T-1 auction could be applied in the T-4 auction. This would also allow sufficient time for a robust approach to qualification processes, as the T-4 auction is likely to feature more participants.

Running an auction four years ahead of the delivery year will introduce a higher degree of competition by enabling new entrants to submit offers. Nevertheless, bid limits may still be required to ensure that any particular capacity provider does not have market power in the auction.

We are broadly comfortable with the governance arrangements; however, it would be useful to have greater clarity around roles in relation to market power. At different stages in the consultation, it references the auctioneer becoming concerned about the market power and it would be useful to understand what aspects of the process are to be carried out by the TSOs and which aspects are to be covered by the RAs. We welcome proposals in relation to an independent auction monitor and auditor and around general transparency requirements.

Regarding the strike price formulation, we have concerns that it is becoming overly complex and based on fuel index data that are potentially proprietary, which therefore potentially introduces a barrier to entry for parties that would not require this as part of their day-to-day operations. This complexity may erode the value of the hedge to suppliers as they cannot be sure when bidding into the auction the value of the hedge to them. Therefore, if

the RAs continue to prefer a floating strike price, the indices used, the exact formulation, transport adders etc. all need to be published by the RAs.

Finally, EirGrid and SONI would like to reaffirm our commitment to working with both the industry and the Regulatory Authorities to assist in the development of effective and appropriate I-SEM arrangements and to support the delivery of the new market arrangements by Q4 2017.

2 INTRODUCTION

2.1 EIRGRID AND SONI

EirGrid holds licences as independent electricity Transmission System Operator (TSO) and Market Operator (MO) in the wholesale trading system in Ireland, and is the owner of the System Operator Northern Ireland (SONI Ltd), the licensed TSO and MO in Northern Ireland. The Single Electricity Market Operator (SEMO) is part of the EirGrid Group, and operates the Single Electricity Market on the island of Ireland.

Both EirGrid, and its subsidiary SONI, have been certified by the European Commission as independent TSOs, and are licenced as the transmission system and market operators, for Ireland and Northern Ireland respectively. EirGrid also owns and operates the East West Interconnector, while SONI acts as Interconnector Administrator for both of the interconnectors that connect the island of Ireland and GB.

EirGrid and SONI, both as TSOs and MOs, are committed to delivering high quality services to all customers, including generators, suppliers and consumers across the high voltage electricity system and via the efficient operation of the wholesale power market. EirGrid and SONI therefore have a keen interest in ensuring that the market design is workable, will facilitate security of supply and compliance with the duties mandated to us and will provide the optimum outcome for customers.

This response is on behalf of SONI and EirGrid in their roles as TSO and MO responsible for Capacity Mechanism Delivery and Capacity Mechanism Settlement. Our view as owner of the East West Interconnector is set out in a separate response.

2.2 STRUCTURE OF THE RESPONSE

This document sets out EirGrid and SONI's response to the SEM Committee's third consultation on the Capacity Remuneration Mechanism Detailed Design (SEM-16-010) published on the 11th Mar 2016.

Section 3 of the response provides an overview of the key points that EirGrid and SONI would like to emphasise as being of most importance.

Section 4 of the response provides our detailed comments on the specific chapters and sections of the consultation paper, including responses to the questions posed in the paper, which underpin the key points in Section 3.

3 KEY POINTS

A sealed bid auction with a demand curve set at price cap and sloping to zero around the capacity requirement in our view represents the most suitable design for the arrive at an efficient outcome and at the same time mitigate market power.

When considering the proposals set out in the paper around the lumpiness issue, option 3b, with pay-as-cleared for in merit units and pay-as-bid for out of merit units, appears to be a reasonable approach. However, the design of the auction system and the efficient clearing of the auction become more complex with this approach. An auction design that allows for a partial acceptance approach in our view would be more straightforward to implement, though it is recognised that this approach may require some arrangements to ensure the viability of the last unit (partially) scheduled.

We believe that it is prudent to allow flexibility in the timing of the auctions. This could potentially enable the staggering of the auctions, with the first T-1 auction to take place in Jun 2017 before the operation of the T-4 auction. This would ensure that lessons learned during the T-1 auction could be applied in the T-4 auction. This would also allow sufficient time for a robust approach to qualification processes for the T-4 auction, which is likely to feature more participants.

Running an auction four years ahead of the delivery year will introduce a higher degree of competition by enabling new entrants to submit offers. Nevertheless, bid limits may still be required to ensure that any particular capacity provider does not have market power in the auction.

We are broadly comfortable with the governance arrangements; however, it would be useful to have a greater clarity around roles in relation to market power. At different stages in the consultation, it references the auctioneer becoming concerned about the market power and it would be useful to understand what aspects of the process are to be carried out by the TSOs and which aspects are to be covered by the RAs. We welcome proposals in relation to an independent auction monitor and auditor and around general transparency requirements.

Regarding the strike price formulation, we have concerns that it is becoming overly complex and based on fuel index data that are potentially proprietary, which therefore potentially introduces a barrier to entry for parties that would not require this as part of their day to day operations. This complexity may erode the value of the hedge to suppliers as they cannot be sure when bidding into the auction the value of the hedge to them. Therefore, if the RAs continue to prefer a floating strike price, the indices used, the exact formulation, transport adders etc. all need to be published by the RAs.

4 EIRGRID AND SONI VIEWS ON THE CONSULTATION TOPICS

4.1 AUCTION FREQUENCY AND VOLUMES

3.2.1 Do respondents agree with the proposed approach for transitional auctions, T-4 auctions and T-1 auctions? If not, please explain.

We agree with the approach set out in the consultation paper in relation to the proposed approach to the transitional auctions, T-1 and T-4 auctions.

3.2.2 What is respondents view in relation to the flexibility around the timing of the T-1 and T-4 auctions?

We agree that flexibility around auction timing is useful. In particular, EirGrid and SONI as delivery bodies for the CRM would see merit in carrying out the T-1 qualification and auction for the 2017/2018 delivery period prior to the T-4 qualification and auction for the 2020 / 2021 delivery period. This would provide an opportunity to learn from any issues that arise in the T-1 qualification and auction and would ensure that the subsequent T-4 auction runs smoothly.

4.2 MARKET POWER

4.8.2 Do respondents agree that market power is a material concern in the I-SEM CRM? If no, why not? Should the SEM committee be concerned with unilateral market power, the potential for collusion or both?

Market manipulation (including attempts to manipulate the market) by a person, or persons acting in collaboration, is prohibited under Art 5 of REMIT. Unilateral market power and the potential for collusion (both overt and tacit) may establish the conditions under which a market participant or group of market participants may manipulate the market (or attempt to). As such, the RAs should, in our view, put in place measures that mitigate *the conditions* for market manipulation *ex ante* insofar as possible rather than relying on *ex post* measures. This in our view should be based on the structure, conduct, performance framework that is being considered for the market power mitigation across the wider I-SEM arrangements.

In this regard, high market concentration (the ability to unilaterally influence the outcome of the auction) and availability of information (the ability to coordinate offers) are areas of key concern.

4.8.3 Do respondents think that the overall market power control framework and package of mitigation measures set out in this section is comprehensive and proportionate? Are there any additional market power concerns that the SEM Committee should be focussing on? Should the SEM Committee bar any existing firm transmission access intermittent generator which has opted out of an auction (on grounds of retiral) from bidding in subsequent auctions, if it subsequently does not retire and/or apply other sanctions?

The auction design, the inclusion of a sloping demand curve and the information policies are key design considerations to mitigate market power. In our view a sealed bid auction with a

sloping demand curve provides a strong incentive to capacity providers to submit cost reflective offers.

The projected adequacy assessments for Ireland and Northern Ireland are available publically through the annual Generation Capacity Statement. As such, capacity providers can form a view as to the likely demand and the level of competition in the market. Providing the exact demand curve provides an opportunity to capacity providers with market power to 'tune' their offers to maximise their benefit from the auction, however not publishing the demand curve may advantage larger, incumbent providers and disadvantage smaller participants. Therefore, careful thought should be given to the information policy (including the price cap, the capacity requirement, the slope of the demand curve), to ensure that it is consistent with the sealed nature of a sealed bid auction while providing a level playing field for all potential providers.

Staging the auction four years prior (approx.) to the delivery year introduces a much greater degree of competition to the auction and is also an important means to mitigate market power as it reduces the pivotal nature of the incumbents.

In addition to the above design consideration, the RAs may seek to restrict or force capacity providers to bid in a certain prescribed manner. While we agree that mitigation of market power is of primary concern, great care is required to not unduly reduce the efficiency of the auction process by overly constraining capacity providers. The reliability option design strikes a balance between investment certainty for capacity providers on one hand and providing a hedge to suppliers against high prices on the other. As such, the capacity provider is exposed to risks which may be greater for capacity providers with lower market concentration than for participants with larger portfolios.

We would suggest that the adjustment of the capacity requirement could potentially be given effect through the downward sloping demand curve. Rather than reducing the capacity requirement prior to the auction, which is intended to mitigate the potential increase in price that arises from this capacity not bidding, this could be given effect within the auction by the selection of an appropriate demand elasticity around the capacity requirement. This would mean that the capacity requirement would only be reduced if the offers from remaining capacity exceeded an acceptable price. Where the offers are reasonable or lower than expected, the original capacity requirement can clear in the auction reducing the hole in hedge issues that arise from adjusting the capacity requirement ex-ante.

For incumbent capacity providers that are pivotal (or have a high degree of market concentration), it may be appropriate to place constraints on the range of offers that they can submit (such as the suggested bid limits). If limits are to be placed on the offers that can be submitted by incumbents, care is required to ensure that the approach to applying the bid limits are not unduly restrictive to the participants in question. Market power does not constitute market power abuse and it is important that in seeking to mitigate market power, limits placed on incumbents do not artificially hasten plant retirement or market exit.

Predatory pricing, however, in our view merits additional attention. The paper suggests that a motive for predatory pricing could be that a vertically integrated company wants to reduce the price that its supply business is exposed to. Another reason for predatory pricing would be to create barriers for new entrants. By suppressing the price, vertically integrated incumbents reduce the economic viability of non-vertically integrated generation or demand

side units. On this basis bid thresholds, in addition to bid limits, may be appropriate based on the degree of vertical integration of incumbent capacity providers.

4.8.4 Do you think that firm transmission access plant which has bid at a certain point within the tolerance band in the T-4 auction (below the maximum) should be allowed to bid more capacity (up to the top of the tolerance band) in the T-1 auction?

It is important to ensure that a market participant with high levels of market concentration cannot exercise market power by withholding capacity from the auction. Beyond this, we do not believe that it is necessary to further restrict a unit's trade. A unit that believes it can deliver additional capacity that is still within its de-rated limits should be allowed to offer this capacity into T-1 auctions.

4.8.5 What metrics should be used to assess whether a capacity provider is dominant, for the purpose of either applying other Bid Limits and/or controls on aggregation (the approach to setting the level of bid controls is discussed in section 6)?

It depends on the auction format. For simpler auctions more simple metrics can be adopted. On the other hand, if the auction becomes more complex, it may be necessary to move to a more sophisticated approach (e.g. conduct and impact tests). The sealed bid auction design is relatively simple, if orders can be partially accepted. Where orders cannot be partially accepted, the lumpiness problem is introduced. Some of the proposed methods of treating the lumpiness issue can introduce a degree of combinatorial complexity e.g. where consumer surplus or welfare is being maximised. It is important that the metrics being used to assess market power are appropriate for the degree of complexity of the auction.

4.8.6 Do you agree that dominant /pivotal generators should be prohibited from acting as Capacity Aggregators? Should associated businesses of dominant / pivotal generators (e.g. their Supply arms) also be prohibited from acting as Capacity Aggregators too?

Only if they increase the market power of relevant participant.

4.8.7 Should there be a prohibition on ESB and other dominant generators providing aggregation services?

Only if they increase the market power of relevant participant.

4.3 AUCTION DESIGN

5.9.2 Which auction format (simple sealed bid, multiple round descending clock, combinatorial format, i.e. Option 1 to 3 in Section 5.2) do you think is most appropriate for the transitional auctions, T-4 and T-1 auctions, and why?

Sealed bid is in our view the most suitable format. Descending clock auctions are useful for price discovery; however, they also provide greater opportunity for market power abuse and tacit collusion. Combinatorial auctions can be overly complex and can often produce highly non-intuitive outcomes.

5.9.3 Do you have any preference for the structure of bids for the auctions? Explain your rationale.

Multiple PQ pairs would reduce the lumpiness of the auction; however, there is a question around whether a unit should be allowed to submit a curve with breakpoints outside its derated tolerance band. A capacity provider could give effect to a lower RO quantity than its derating tolerances would have otherwise permitted by pricing higher quantities out of the market. We see no issue with this outcome; however, there may be implications for market power concerns related to economic withholding.

5.9.4 Do stakeholders agree with the proposed approach of adopting Option 3b to deal with the lumpiness/discrete bid problem? If not, please explain why not, and your preferred alternative approach.

Lumpiness arises from the notion that offers are not partially acceptable i.e. they are either accepted in full or rejected in full. This constraint adds considerable complexity to the auction as it introduces a mixed-integer combinatorial dimension to the clearing process. An auction of this nature has a greater risk of unintended outcomes and introduces a greater level of implementation risk. Consideration could be given to the partial acceptance of offers as a means of dealing with lumpiness by essentially not introducing the issue in the first place. It is accepted that capacity providers require some certainty of achieving the level of revenue they require, so a partial acceptance of offers require consideration of measures to give additional certainty to the last unit (partially) scheduled.

5.9.5 Do stakeholders agree with the approach of setting the clearing price based on the highest accepted in-merit winner, and paying any out-of-merit winners based on a pay-as-bid basis? If not, please explain why not, and your preferred alternative approach.

If an auction approach is implemented that results in the use of out of merit capacity, the proposal to set the clearing price based on the highest accepted in-merit winner, and pay any out-of-merit winners based on a pay-as-bid basis appears reasonable.

5.9.6 Should the SEM Committee introduce a sloped demand curve, either as a market power control, or for other reasons?

A sloped demand curve is an important component of the auction design.

5.9.9 Price determination. Do you agree that it appropriate to pay auction winners on a “pay-as-clear” basis, with this uniform clearing price being based on the highest accepted in-merit bid price? Should any out-of-merit winners be paid a different price to in-merit winners?

Yes, auction winners should be paid based on the highest accepted in merit offer. If out-of-merit winners are present, we believe they should receive their offer price on a pay-as-bid basis.

5.9.10 How do you think the lumpiness / discrete bid issue should be dealt with?

When considering the proposals set out in the paper around the lumpiness issue, option 3b, with pay-as-cleared for in merit units and pay-as-bid for out of merit units, appears to be a reasonable approach. However, the design of the auction system and the efficient clearing of the auction become more complex with this approach.

Partially accepted offers could possibly offer a simple solution to the issue of lumpiness by not creating the problem in the first place. The unit could then enter into secondary trading

arrangements to further adjust this position. An auction design that allows for a partial acceptance approach in our view would be more straightforward to implement. It is recognised that this approach may require some arrangements to ensure the viability of the last unit (partially) scheduled. Careful consideration should be given to determining the solution that provides the best overall outcome for customers.

5.9.12 What is the appropriate level of information to be provided: before qualification; between qualification and the auction start; between rounds in the case of a multiple round auction; and after the end of auction?

Before qualification, the following information in our view should be known and public:

- The qualification criteria and rules associated with the qualification process including dispute resolution.
- All information related to the product necessary to enable a capacity provider to reasonably value the risk associated with the product over the lifetime of the product:
 - The product being traded including the basis of associated payment and charges
 - All terms and conditions associated with the product
 - All parameters associated with the product

The above information would not include any forecast information on the reference markets or strike price reference markets. The reference markets and strike price indices would be known; however, it would be for capacity providers to assess likely evolution of the reference markets and relevant indices.

Following the qualification process and prior to the submission of offers, an assessment of various market power related metrics may need to take place and each capacity provider should be informed of any bid limits that would apply to their unit(s) and any other associated information that may influence their offer.

While in theory not publishing the demand curve should lead to more accurate price discovery, this may advantage larger, incumbent providers who have access to more information over smaller participants. Therefore, careful thought should be given to the information policy to ensure that it is consistent with the sealed nature of a sealed bid auction while providing a level playing field for all potential providers.

Following the auction, a summary of the auction should be published including all key summary information of the auction process e.g. qualified volumes, capacity requirement, price etc.

5.9.13 Are any additional restrictions on bidder communications (over and above existing competition law) required?

REMIT provides a clear framework on behaviour that could be construed as market manipulation or insider trading.

4.4 AUCTION PARAMETERS

6.5.3 If a sloped demand curve is introduced, what principles should be used to determine the slope of the demand curve, and the range within which the demand curve is sloped?

If the Value of Lost Load is fixed then a relationship between capacity requirement and price can be established and used as the basis for the demand curve. We agree that the key points occur at prices equal to price cap, net CONE and zero. There may be merit in considering more points than ones referred to in the consultation to reduce the volatility; however, this could be considered further in parameter setting process.

6.5.4 If introduced, should the sloped demand curve be different for the transitional period?

There may be merit in a transitional sloped demand curve based on an additional objective of smoothing the transition between the current capacity mechanism and reliability options. This should be weighted up against the overall cost to the consumer and also in relation to the longer terms investment signals being provided by the CRM.

6.5.6 Do you agree with the requirement for an Auction Price Cap? What principles should be used to determine the level for the Auction Price Cap/what level should it be set at?

Yes. In order to protect consumers, price caps should form part of the Demand Curve to ensure the auction cannot clear above a certain prescribed level.

6.5.7 Do you agree with the requirement for other Bid Limits?

Where a capacity provider's concentration exceeds a certain prescribed level, there may be merit in applying bid caps. We would see a bid cap as acting in a similar manner to how directed contracts mitigate market power in the SEM. It would be important to ensure that the combination of mandatory bidding and bid limits does not unreasonably constraint a capacity provider.

4.5 AUCTION GOVERNANCE, ROLES AND RESPONSIBILITIES

A) Do you agree on the proposed role of the TSOs with respect to the auctions?

We welcome the RAs setting out clearly the governance arrangements in this paper, and through the subsequent licence modifications published on 20 April. Response here relates to the CRM3 consultation paper, licence mods (although overlapping) will be responded to separately. We welcome the alignment of the CRM processes with DS3 wherever possible

B) Do you agree on the requirement for an Independent Auction Monitor and its proposed roles and responsibilities? If not, please specify what changes you would make? Should this role be combined with the role of SEM/I-SEM Market Auditor?

We welcome the introduction of the Independent Auction Monitor and the assurance provided by it.

C) Do you agree with the SEM Committee’s proposed approach to managing conflicts of interests in the Capacity Market Code? Are any other steps appropriate to ensure that any actual or perceived conflicts of interest are managed?

The financial performance of the EirGrid Group is unconnected to the success or otherwise of EIL in the CRM auctions. Furthermore, ensuring compliance with REMIT¹ and all other relevant provisions in licence and statute is highly important to us. The regulatory model established by CER removes any incentive to act on a conflict of interest, and also strongly limits the ability to act on any conflict in the first place.

We welcome the additional measures proposed in paragraph 7.8.2 of the paper as they will provide additional assurance and transparency. We are also working separately with the RAs to assess the overall framework to address any perceived conflicts of interest.

D) Do you have any comments on the proposed auction governance arrangements?

Governance should be as streamlined as possible to avoid unnecessary overheads, while retaining sufficient flexibility to allow the market to react to any emerging events. Certainty for investors should also be provided

Resources will be required to undertake the additional work associated with the role of CRM Delivery Body. This is not included in the TSO revenue entitlements in either jurisdiction, in this response we are assuming that the RAs will make the necessary adjustments to revenue caps to provide for adequate and appropriate resourcing of this role.

E) Do you have any views on the model and process for making modifications to the Capacity Market Code?

We welcome the introduction of an annual cycle to the Modification Process. This facilitates the implementation of any necessary adaptations in a streamlined and efficient manner.

F) Do you think that disputes in respect of the Capacity Market Code should be resolved by a similar process to TSC disputes? Should there be a separate panel for Capacity Market Code dispute resolution?

Disputes under DS3 are determined under the relevant procurement legislation. Our understanding is that the CRM will not be subject to the same legal requirements therefore a dispute resolution process relevant to the regulated nature of all of the parties involved could be developed, while retaining the rights of parties to raise an appeal through the courts should they choose to do so. Given the annual cycle, it is important that the disputes process aligns with the auction timelines, for example a dispute related to qualification criteria should be resolved in a timely manner so that the integrity of the auction is preserved.

¹ For example if the CRM is considered to be an organised market place for the purposes of REMIT, the use of insider information to inform the bidding strategy is prohibited.

A) Do you agree with the proposed approach to incorporating the carbon price into the Strike Price formula?

We have concerns that the strike price formula is becoming overly complex with dependencies on gas, oil, carbon prices, carbon intensities, thermal efficiencies etc. and this may undermine the value of the hedge provided by the Reliability Option.

The paper suggests that the strike price will more often than not default to the DSU price, which is set out to be €500/MWh. On occasion, where fuel prices rise significantly, the RO strike price will allow low thermal efficiency units potentially running on Heavy Fuel Oil to recover their costs. Meanwhile, suppliers will need to track all the variables in the strike price formula in order to ensure they are aware when the strike price is going to move away from €500/MWh as they will be exposed. Alternatively, their CfD contracts would need to mirror the RO strike price further complicating these instruments also.

The inclusion of these components to the strike price places certain fuel types at the heart of the Reliability Option, whereas others are not referred to. As the European Commission is considering the issues in relation to capacity mechanisms around Europe, one of the key concerns is that they do not extend the life of older fossil fuel fired units. It could be argued that the presence of a floating strike price referenced to two specific fuels, in particular the proposal to use Heavy Fuel Oil, confers an advantage on units that use these fuels.

B) Do you agree with the approach of moving to a month-ahead index? C) Do you agree that a reference thermal efficiency of around 15% is appropriate? If not, why not? D) Do you agree that the appropriate oil price is the Heavy Fuel Oil price?

We do not agree with the proposals to use a month ahead index, a thermal efficiency of 15% or the use of HFO. These values are technology specific and represent a large inefficient oil fired unit, which we believe should not be represented at the core of the Reliability Options. We believe the Reliability Option product should not have any reference to particular technologies. The inclusion of the floating strike price calculation based on certain fuel types, introduces this technological dimension that is not appropriate for technology neutral capacity mechanism.

E) Do you agree with the principles / criteria set out in Section 8.2.28, that the SEM Committee proposes to use to choose between data sources for fuel and carbon prices, exchange rates?

We do not believe that it would be appropriate for the CRM Delivery Body to choose the fuel, carbon and exchange rate data sources as these will have a material effect on the value of the RO. In our view the strike price should be fixed to a single number for the year being auctioned by the RAs potentially e.g. based on the DSU component or based on the formulae included in the consultation. Alternatively, in the case of the floating strike price, we would be of the view that this calculation (including all the relevant fuel index information, transport adders, carbon intensities) should be set out in a RA decision paper.

It may be important to note that many of the fuel index sources that would meet a Data Quality Gold Standard are proprietary and therefore could not be published. This would also include any information that would enable the back calculation of the fuel source

information. The proprietary nature of the information also has implications for participants that do not require this information normally as part of their daily operations (e.g. suppliers, wind units, demand side units, other fossil fuel units etc.).

F) Do you agree with the proposed governance / process for changes to fuel and carbon prices, exchange rates and transport adders used in the calculation of the Strike Price?

We would suggest that the RAs are responsible for the choice of fuel indices, carbon prices, exchange rates and transport adders and that if the RAs believe a change is required, the appropriate consultation process can be used to introduce the changes.

A) Do you agree with the proposed approach for setting the Supplier's contribution rate? If not, please explain.

We agree with the objectives set out for the proposed approach for setting the Supplier's contribution rate. Regarding the principles set out, while we broadly agree with the proposed approach, it may be difficult to calculate the confidence level associated with future difference charges as their distribution is not known and may not follow regular patterns.

B) Do you have a preference as to which option (Suspend and Accrue or Immediate Additional Charge) should be applied to socialisation of any shortfall in Reliability Option difference payments? If not, please explain.

It may be possible to combine both approaches by adopting the suspend and accrue approach but also introducing an immediate additional charge to enable faster recovery of the difference payments due to the supplier whose payments were suspended.