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**Ibec views on the Capacity Remuneration Mechanism Detailed Design Third Consultation Paper**

Dear Karen, Dear Thomas,

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

As previously stated in response to SEM-15-04 and SEM-15-014, Ibec supports the decision to retain a Capacity Remuneration Mechanism (CRM) given the need to provide a stable regime for a small, relatively isolated island system with certain inbuilt safeguards both for providers, end-users and investors.

As noted in the consultation paper, a successful CRM should provide security of supply and a reliable power system at least-cost over the long-term and we have provided comments in response to the proposals that will be of most concern to large consumers.

## Section 3 - Auction frequency and volumes

### T-4 auctions

Ibec recognises the benefit of procuring the majority of the Capacity Requirement at the T-4 auctions in order to determine the cost to the consumer in an auction informed by the competitive outcome of new capacity versus existing. As noted in the consultation paper, this will ensure that the price paid by consumers reflects the cost of new entry where relevant.

### T-1 auctions

The consultation acknowledges the difficulty that some Demand Side Units (DSUs) may have in predicting their ability to participate in the T-4 auctions. Therefore this lead time should enable the contribution of DSUs, and the suggestion that the SEM Committee will periodically review the volume of Capacity Requirement to withhold from the T-4 to T-1 auctions to account for the increased contribution of DSUs over time is to be welcomed. However, in considering the suggested timeframe consideration for the T-1 auction (13-2 months before the start of the delivery year) a balance must be struck in ensuring that DSUs can participate while at the same time suppliers are confident in their ability to meet their commitments.

**Section 4 - Market power**

The consultation paper notes that market power is a significant concern and will have an important influence upon the design of the auction. Our members understand the importance of ensuring the capacity auctions mitigate market power (to prevent distortion of pricing above or below competitive levels) and therefore request a targeted and proportionate response in identifying and applying the most appropriate instrument.

In terms of the market power mitigation approaches, and in considering the proposals against the backdrop of decisions already taken in SEM-15-013 to restrict the scope of physical withholding, we understand that there may be a case for introducing additional controls upon plants that opt out of auctions. However, some degree of flexibility must exist in the auction rules to accommodate unforeseeable changes in market conditions that may reverse an operator's decision to retire its plant, to the extent that this promotes competition and efficiency.

The argument for introducing some form of price control on bids is well made, backed-up by the rationale that rules on physical withholding on their own may not prevent the exercise of market power if the bidder opts to bid that volume at a very high price. While auction price caps and the introduction of a "reserve price" or bid limits may provide an administrative solution to suppress capacity prices, it may not be sustainable and does not seem to be compatible with the concept of introducing an auction, and nor does it address the risk of predatory pricing. Therefore we would ask if there is a less onerous, interventionist proposal that strikes the right balance to allow for the optimal and sustainable functioning of the market in order to deliver value for money for the consumer.

**Section 5 – Auction design**

**Lumpiness**

Careful consideration should be given to how this this issue is dealt with given the significance of the lumpiness problem in relation to the small size of the all-island market. Ibec has a concern that the proposed solution

(Option 3b) in the consultation paper to reject the marginal ‘lumpy’ unit in favour of a smaller ‘out-of-merit’ unit may depress the price below competitive levels, discourage new entry, encourage premature closures and threaten security of supply.

**<u>Section 8 – Other residual issues</u>**

**Socialisation**
Ibec recognises the rationale and function of the socialisation fund to cover any hole in the hedge at times when Reliability Option difference payments received from capacity providers are insufficient to provide a complete hedge to Suppliers.

The socialisation fund must be designed to meet its objective and offer an effective hedge to suppliers given that the cost of any shortfall is likely to be borne by the consumer. The socialisation fund must therefore be given very careful consideration to ensure it meets its objective. In order to provide additional stability in the short term, any shortfall in any particular year should be trued-up within-year, with necessary adjustments made to tariffs in future years.

In conclusion, we appreciate the continued willingness of the Regulatory Authorities, especially the Commission for Energy Regulation, to keep Ibec’s members engaged in the market reform process.

Yours sincerely,

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Catherine Joyce-O’Caollai
Senior Energy Policy Executive