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EAI Response to SEM Consultation on the Fixed Cost of a Best New Entrant Peaking Plant, Capacity Requirement & Annual Capacity Payment Sum for the Trading Year 2017(SEM-16-026)

Dear Kevin,

EAI is grateful for the opportunity to respond to the consultation on the Annual Capacity Payment Sum, Capacity Requirement and Best New Entrant for 2017. Whilst we acknowledge the RAs' intention to fix revenue for 2017, as this will possibly be the final year of the existing CRM, it is also conceivable that some form of ex-ante calculation will endure for a transition period between the old and the new. It is in this context that we will comment on the 2017 proposals and reiterate some of our concerns with the existing methodology from previous consultation responses.

We have consistently highlighted the importance of revenue adequacy across the three main revenue streams in SEM and the need to view all three in a holistic manner. We have concerns around the quantum of the proposed reduction in the ACPS for DS3 revenues and the transparency of the process to determine this reduction. To address these concerns, we request further evidence to support the assumptions and, failing appropriate justification, propose that the quantum of the AS reduction is maintained from the previous period adjusted for inflation linked to the Retail Price Index(RPI). Whilst not wishing to re-open the methodology for determining the total revenue that will be available for capacity in 2017, the unrealistic assumption that an 8 hour security standard is maintained on the all island system remains a concern and implies that our members will continue to under-recover the value of their respective capacity in 2017. We would like to see the security standard revised to reflect the reality on the ground.

DS3 Revenue

The transparency of the process to determine DS3 revenues, undertaken between the RAs and TSO, is of concern for our members. As a result, there is insufficient quantitative evidence and justification of assumptions to support the quantum of the proposed increase in DS3 revenue and consequential reduction in the overall revenue available for capacity in 2017. Further evidence is required to support

the assumption that the BNE peaking plant will earn revenue from all 14 DS3 products. It is our understanding that 3 of these products will only be offered on a pilot basis (EirGrid refer to as 'technology trials') by the TSOs in 2017. While the assumed revenues for the BNE from these products are small, it is nevertheless important that the approach applied reflects the reality for generators in 2017. The interim tariffs also include product and performance scalars and it is unclear it is unclear from the consultation paper what, if any, performance scalar has been applied to the calculated DS3 revenues of the BNE.

Security Standard

We would like to take this opportunity to reiterate concerns in relation to the 8 hours LOLE assumption as outlined in our response to SEM 15-032, supported by analysis from Poyry which is submitted again alongside this response. In our response we demonstrated that a combination of an over-estimation of the IMR by the RAs and the targeting of a higher security standard by the SOs means that, in effect, the SOs are achieving a higher level of system security than the RAs are prepared to pay for. The implication is that participants have under-recovered revenue in the past and will continue to underrecover whilst this methodology and assumptions persist. A revision to the security standard is required to correct this and better reflect the reality on the ground.

Last year we also highlighted that the capacity requirement was extremely tight (6%) even with an 8 hours security standard. This year, we are concerned that the capacity margin has reduced further to 5.5% (capacity requirement of 7,267MW vs a TER Peak of 6,888MW giving a margin of 379MW equating to c5.5%).

To conclude, we request further evidence to support the assumptions around anticipated DS3 revenues and, failing appropriate justification, we propose that the quantum of the AS reduction is maintained from the previous period adjusted for inflation linked to the Retail Price Index(RPI). We also request an evidence-based justification for the retention of the 8-hour standard.

We are available to meet and discuss this response at the earliest opportunity and look forward to hearing from you.

Yours sincerely,



Stephen Douglas
Senior Advisor
Electricity Association of Ireland (EAI)