

## **SEM Consultation Paper SEM-16-051 Capacity Requirement and De-Rating Factor Methodology Detailed Design**

Vayu welcomes the opportunity to comment on the SEM Committee's ("SEMC") consultation paper – SEM-16-051 on the detailed design of the Capacity Requirement and De-rating Factor Methodology for the Capacity Remuneration Mechanism ("CRM"). In general, Vayu has little to add to the consideration of the detailed methodology and parameters save to make the point that we expect the Regulatory Authorities to take final decisions with the needs of customers and the future development of a fair and competitive market in mind. Vayu would, however, like to make a specific point about the methodology for treating non-market demand in the proposals for determining the capacity requirement (Section 3.4 of Appendix A).

Section 3.4 sets out clearly that 'non-market demand', i.e. that portion of demand procured from de minimis generation, will be netted off forecasts of demand for the purposes of calculation the future capacity requirement for the CRM. As a result, the contribution of de minimis generators towards providing capacity and system security is recognised in the methodology and, with de minimis generators providing some 8% of total energy requirement (and 200-300MW of capacity at peak times according to the graphs presented in Figure 5, p14), prices resulting from the CRM auction will be lower than they would otherwise have been had a higher forecast of gross demand been used. However, there is no explicit route for this benefit of lower capacity prices for consumers to be passed on to the de minimis generators that provide this benefit. This is supported by the recent regulatory decision on the treatment of 'negative demand' (published 11<sup>th</sup> July) that states a long-term aim for the CRM to charge suppliers based on their individual gross demand and to provide no direct route to compensate de minimis generators for their contribution to system security. Vayu believes that this situation is inequitable and prejudicial to the interests of de minimis renewable generators and clearly favours larger providers of capacity. Vayu would urge the Regulatory Authorities to take some consideration of the financial impact of this decision on the financial position and business viability of these generators before introducing any changes that would negatively impact their income.

In summary, Vayu believes that the combination of these proposals is to provide a benefit to customers, by calculating the capacity requirement for the CRM based on total net demand, but to deny the providers of this benefit any revenue or compensation for their creation of this benefit.

In terms of the assessment criteria for the high-level design and detailed proposals for the CRM, Vayu believes that these decisions fall short on the following points:

- **Competition:** The lack of benefit to renewable de minimis generators inhibits new entry to the market from this significant group and fails to provide transparent pricing for these generators.
- **Equity:** The benefits of de minimis generation's contribution to system security are not allocated in a fair and reasonable manner, accruing to consumers rather than the generators that provide the benefit.

- **Environmental:** By deterring new entry from renewable de minimis generation in particular, and impacting the viability of existing renewable generators, the proposals fail to promote renewable energy sources and facilitate government targets for renewables.
- **Practicality/Cost:** The result of these decisions is that the price signals for de minimis generators are not well defined and the cost of participation in the CRM is not reasonable for these participants with limited resources.

Vayu would urge the Regulatory Authorities to take these issues into consideration in the further development of the CRM Code and in the forthcoming consultation on supplier charging. A number of potential solutions exist to provide remuneration to de minimis generators for their contribution to capacity, for example the creation of an AOLR to allow them to participate in the CRM or by reversing the recent regulatory decision and charging suppliers for their CRM costs based on net demand. Vayu would look to the Regulatory Authorities to create arrangements that hold existing de minimis generators in the same position regarding revenue that they are in today, that is receiving benefits for their provision capacity, and which they have based their business and financial arrangements on. Failing this, Vayu would also suggest that transitional arrangements are put in place to protect vulnerable de minimis generators from the impact of any regulatory decisions that lead to an immediate and adverse impact on their revenue.

We are, as always, open to discussing our views in more detail, either by telephone or directly in a meeting, and look forward to contributing to the current open consultation on the Basis for Supplier Charging.