



**Single Electricity Market
Capacity Payments Mechanism
FCPPy and ECPPy for Trading Year 2010**

Decision Paper

17th September 2009

SEM/09/098

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2 INTRODUCTION

On 24 July 2009 the SEM Committee (SEMC) issued a Consultation Paper entitled 'FCPPy and ECPPy for Trading Year 2010' (SEM-09-082). Responses were received from the following parties:

- Endesa Ireland Ltd
- ESB Power Generation
- NIE Energy Supply
- NIE Power Procurement Business (PPB)
- Viridian Power & Energy

This Decision Paper sets out the SEMC's decisions in relation to that Consultation Paper.

3 BACKGROUND

In December 2006 the Commission for Energy Regulation and the Northern Ireland Authority for Utility Regulation (the 'Regulatory Authorities') issued a Decision Paper entitled 'Capacity Payment Factors' (AIP-SEM-231-06). This Paper set out a number of decisions relating to parameter settings for the SEM Capacity Payments Mechanism (CPM).

Included in these parameters were the Fixed Capacity Payments Proportion (FCPP) and Ex-Post Capacity Payments Proportion (ECPP) for the 2007 and 2008 Trading Years.

The Trading and Settlement Code (T&SC) stipulates that the FCPP and ECPP are to be set by the Regulatory Authorities on an annual basis. This Consultation Paper addresses this requirement and sets out the SEM Committee's proposal for the values of these parameters for the 2010 Trading Year.

The existing parameters, decided upon in the aforementioned Decision Paper are as follows:

$$\text{FCPPy for 2007/8} = 0.3$$

The FCPP for 2007/8 dictates that 30% of the Annual Capacity Payment Sum (ACPS) is to be allocated to the Fixed Capacity Payment Stream for the relevant Trading Years.

$$\text{ECPPy for 2007/8} = 0.3$$

The ECPP for 2007/8 dictates that 30% of the Annual Capacity Payment Sum (ACPS) is to be allocated to the Ex-Post Capacity Payment Stream for the relevant Trading Years.

A third parameter is implicitly defined by the above:

$$\text{VCPpy for 2007/8} : (1 - \text{FCPPy} - \text{ECPPy}) = 0.4$$

The VCPpy for 2007/8 dictates that 40% of the Annual Capacity Payment Sum (ACPS) is to be allocated to the Ex-Ante Variable Capacity Payment Stream for the relevant Trading Years.

The same parameter values were used for the 2009 Trading Year.

4 CONSIDERATION OF RESPONSES

Of the five responses received, all were in favour of maintaining the current values of the parameters.

Endesa Ireland considered that maintaining the current values helps to provide regulatory certainty and to ensure market stability. PPB noted that in previous responses to consultations on the SEM Capacity Payment Mechanism, they argued that the variable ex-post capacity payment stream provides little incentive for real-time availability but merely adds uncertainty and increased risk for potential investors. Viridian restated the concerns they had raised in the consultation for the 2009 settings. The points raised by Viridian as detailed in the 2009 Decision Paper are:

- *VPE are uncomfortable with the proposal to retain the existing settings, particularly on the grounds that numerical analysis would be required to justify or inform the change.*
- *Eirgrid's system performance report shows no clear improvement in availability post-SEM, and after 12 months now would seem the right time to perform such analysis.*
- *VPE contends there is a risk of retaining the existing parameters without analysis.*
- *VPE suggest that weightings of 60% / 20% / 20% for FCPP / VCPP / ECPP would better facilitate the CPM objectives.*
- *Analysis should address key points such as:*
 - *Is relative LOLP a better signal than demand-profiling in improving system availability?*
 - *What is the impact of relative LOLP on the revenues for large market participants?*
 - *Does increased weighting of the demand-profiling align the signals for generators and suppliers?*

All five respondents felt that as these parameters are included within the scope of the CPM Medium Term Review, it is appropriate to maintain the existing settings for FCPPy and ECPPy for the trading year 2010, pending the outcome of the Medium Term Review.

5 DECISION ON PROPOSED SETTINGS

The SEMC therefore proposes to retain the existing settings for FCPP and ECPP for the Trading Year 2010:

FCPPy for 2010 = 0.3

ECPPy for 2010 = 0.3

Under the TSC algebra, the magnitude of the Variable Ex-Ante component (VCPP) is a simple function of the above two parameters and is thus implicitly proposed to be retained as:

VCPPy for 2010 = 0.4

All of these parameters will be fully considered as part of the CPM Medium Term Review.