

ESB PG Response to SEM/10/046 CPM Medium Term Review Work Packages 1 to 5.

ESB PG welcomes the opportunity to respond to the discussion paper. Currently, ESBPG are only commenting on a few items within the paper but we may comment further on this paper in light of the expected subsequent paper on the same subject due in Q4 2011.

General Comment:

ESBPG welcomes and agrees with the RAs that volatility reduction and capacity payment predictability are key to investor confidence and ensuring the regime can deliver the required security of supply to consumers and energy price stability. Currently the CPM is not sufficient to encourage proper and appropriate investment. This paper does not address this and we would ask the adequacy of the existing signals be considered in the subsequent consultation.

Section 4.2: Forced outage probability

While recognising the aims of the RAs in setting the FOP so as not to reward poor plant performance and acknowledging the average improvements as shown on an all-ireland basis in the paper, ESBPG believes that the proposed FOP is too low going forward. This is based on

- Facilitation of increased penetration of wind leading to increased cycling of plant which in turn increases the probability of forced outages
- The effect of Transmission System constraints are increasing which in turn leads to increased cycling of plant and thus increases the probability of forced outages.
- The number of starts is a significant factor in determining the lifetime of the plant. Plants seeing a significant number of starts are more likely to be forced off the system over the next two years.

For these reasons, ESBPG believes that the FOP is too low and a figure of 6% is a reasonable expectation in these circumstances.

Section 4.4 Impact of Wind on Capacity Requirement Calculation.

ESBPG agrees with the RA assessment that high wind penetration does not significantly change the capacity requirement in SEM.

Section 5.2 Implementation of CPM in the SEM and Impact of IMR Deduction

ESBPG agrees with the RA assessment that in theory the “Status Quo” methodology could lead to significant volatility in the capacity pot. However based on our modelling, PG has not found any significant volatility in IMR as suggested in the paper and cannot replicate the outcome. Perhaps further modelling looking at this issue is required. As a result ESB PG favours the status quo approach until the assumed volatility is confirmed.

However in the event that further modelling demonstrates that the CPM becomes as volatile in reality as in theory, then in terms of the two options presented, ESBPG favours option 2 which uses PCAP in the determination of the inframarginal rent. This formula should be improved by the inclusion of the FOP in this formula as suggested by the RAs

However, ESBPG believes that there should not be an automatic assumption that at equilibrium the BNE peaker will earn inframarginal rent in which the 8 hour loss of load should come into effect. In almost three years of SEM, the market has not reached $SMP = PCAP$ ¹. In addition, given that the RAs/TSOs actually do not want any loss of load in the year it is appropriate that a much lower figure than 8 hours is assumed to occur in reality, and therefore a minimal figure is more appropriate: we suggest 1 hour/annum.

Thus taking these two factors, ESB PG are strongly of the opinion that option 2 modified as below will achieve the aims of the RAs and give stable signals to investors in the market.

IMR deducted in €/kW = $[PCAP\text{-bid price BNE}]/1000 * 1 \text{ hour} * (1 - FOP)$

ESBPG believes that option 1 is nonsensical as under no circumstances can a unit earn VOLL.

¹ The market did, in fact do so on one occasion in 2010, but this was due to an issue with tolerances in the market engine and it is proposed to reset that period.