IWEA Response to the Discussion Paper CPM Medium Term Review: Work Packages 1 to 5

10th September 2010

IWEA welcomes the opportunity to comment upon the discussion paper on the CPM Medium Term Review – Ref SEM/10/046. In this response we set out our views on the work packages as presented, but would note that, as a further paper is due on other work packages, it is difficult to take a definitive view on any issue without sight of all the proposals together.

Work Package 1 – Historical Analysis of CPM

It is clear from the graphs that wind only receives a very small proportion of the overall capacity pot (4% in 2009), despite contributing approximately 15% of installed capacity and 12% of delivered energy in the SEM over the same period. Given the capacity factor of wind generation this is not unreasonable, and it should be noted that this would not appear to constitute over-payment to wind generation. This is an important point to note when the RAs are considering Work Package 6 on treatment of generator types in the SEM. Previous documents in this consultation process have referred to an “over payment” to wind generation, however there is no evidence to support this assertion.

We would reiterate our position in the initial consultation that the CPM should not unfairly discriminate between types of generators and thus remain inherently fair. All generators get paid on availability and, rightly, wind generators are not available when there is no wind resource. Any reduction in capacity payments to wind when they are available however would breach this principle and undermine fairness in the CPM. It would also act to undermine Governments renewable targets. It should be noted that if different values are being investigated for different technologies, the full suite of factors needs to be taken into account, for example ramping, flexibility etc.

We would also note that as wind generators are paid for capacity payments solely on generation, it is only fair that conventional generators who are paid based on availability, are subject to rigorous testing, in order to verify this declared availability.

The market should reflect the value of renewable generation in reducing the overall cost of energy to customers, in a market in which its increasing output will increasingly reduce infra-marginal rent for all generators – as well as spreading capacity payments more thinly. This is a SEM issue effecting both conventional and renewable generation, which was not addressed in the recent consultation on the Principles of Dispatch and the Design of the Market Schedule in the TSC and should be considered at this juncture. IWEA believes that the capacity payment pot should be increased.

Work Package 2 – Review of Capacity Requirement

IWEA welcomes the further transparency provided by the RAs through workshops and further information being published on the capacity requirement. As part of the decision paper to this consultation the RAs should set out a clear list of the steps it will take each year, to ensure no erosion of information provision over time and parties can prepare for the process.

In terms of specific methodology issues, it appears that the current assumptions of using:

- An unrealistic Forced Outage Probability Rate for centrally dispatched generation;
- An unconstrained basis for calculating LOLE (the requirement of reserve being a particular issue);

will lead to greater than 8 hour's loss of load in a given year. This should be considered in the next step of the consultation, as it contravenes the stated requirement that the CPM ensures generation adequacy.

Work Package 3 – Deduction of IMR & AS & BNE Peaker Plant Options

The paper proposes a major change to the calculation of the CPM Pot based on an assumed infra-marginal plant the BNE might earn. We would like to raise the following points:

- This new proposals are supported on the basis it will heavily reduce volatility in the CPM, yet the evidence to date has shown that it is other factors creating the volatility, such as WACC, capital costs, etc. Applying this methodology historically would have done little to reduce the volatility seen to date.
- Evidence to date has also shown that investment in the SEM has focussed on distillate peakers. It appears that this change will simply incentivise less efficient or cheaper versions of these plants.
- The changes proposed would clearly result in a significant increase in an investors WACC, as running hours for peaking plant cannot be relied upon, by a rational investor. The impact of this proposal on WACC must also be considered.

With regard to deducting ancillary services from the CPM pot, in order to incentivise additional services such as flexibility, voltage support, etc., only the standard ancillary services that are currently rewarded in the market should be subtracted from the capacity pot. We understand the SOs are considering new products to better incentivise those requirements as identified under the Facilitation of Renewables report carried out by the SOs. In order to see these products are delivered, they should not be deducted from the CPM pot.

Work Package 4 – BNE Peaker Plant Fuel Options

IWEA welcomes the RAs intention to continue with the current metholdogy as it goes some way to reducing the year on year volatility.

Work Package 5 – Exchange Rate for CPM

No comments.

Finally IWEA would ask that the second phase of this consultation which was originally scheduled to commence in September 2010 be progressed as soon as possible. As the RAs are aware, several GW of grid connections offers will be offered to renewable developers over this year and next and it is important that as much uncertaintly for investment as possible is removed from the market. Furthermore any proposed changes to the SEM should be compatible with delivery of national Government renewable targets and not act to undermine them. It should also be noted that changes to the SEM need to be reviewed within a consistent framework.