



**Response by Energia to the Regulatory  
Authorities Consultation Paper SEM-12-081**

***Single Electricity Market Capacity Payments  
Mechanism FCPPy and ECPPy for Trading Year 2013***

**2 October 2012**

## **1. Introduction**

Energia welcomes this opportunity to respond to above consultation on the capacity payment proportion parameters (FCPPy and ECPPy) for the 2013 trading year.

## **2. Discussion**

Energia does not accept that a generator's behavior is influenced by the ex-post CPM payment stream and in response to the CPM Medium Term Review SEM-11-019 it was strongly suggested by Energia that the ex-post component should be reduced should any changes be made. This is Energia's view in response to SEM-12-081 supported by the reasoning re-produced below from Energia's response to SEM-11-019.

"There is, as the consultation documentation suggests, a balance to be struck between stability/certainty of participant revenues as provided by ex-ante weighting of payments and appropriate incentivisation of participants to be available at times of tight margin. The existing weighting between ex ante and ex post payments is overly ex post weighted. This view is consistent with historic responses to the annual consultation on this issue. We therefore suggest that current weightings be rebalanced towards more ex ante payment streams and would especially caution against any move to increase the ex post weighting of capacity payments on the following grounds:

- It would be clearly and visibly inconsistent with ex-ante market coupling at the EU level.
- It would be clearly damaging to efficient interconnector trades by increasing the 'dead-band' in which trades do not occur.
- It would significantly increase the potential for gaming which would be very difficult to monitor and police and would particularly benefit portfolio players, hence discouraging new entry.
- It is likely to be very contentious in the context of scheduling generator outages and would give the TSO, via the power to schedule outages, undue influence over matters of a commercial nature. This is of particular concern as the TSO is soon to be an asset owner.
- It would significantly increase generator risk and hence cost of capital.
- It would not result in any behavioural change – indeed no evidence has been presented to convincingly show that ex post capacity payments based on relative LOLP actually increases availability.

If anything the distribution allocation should be more heavily ex ante weighted because generators are unable to respond to an ex-post pricing signal, it would reduce the potential for gaming, and it would also be in keeping with the need for day-ahead coupling of the SEM and neighbouring markets under the emerging European Target Model".