

## **Single Electricity Market**

### **Capacity Payments Mechanism**

### **FCPP<sub>y</sub> and ECPP<sub>y</sub> for Trading Year 2014**

### **Consultation Paper**

**25 September 2013**

**SEM-13-064**

## 1 CONTENTS

1	CONTENTS.....	2
2	PURPOSE OF CONSULTATION.....	3
3	BACKGROUND.....	3
4	TSO REPORT .....	4
5	PROPOSED SETTINGS.....	5
6	VIEWS INVITED .....	6

## 2 PURPOSE OF CONSULTATION

The SEM Trading and Settlement Code requires the Regulatory Authorities (“**RA**s”) to determine, on an annual basis, values for certain parameters in relation to the calculation of Capacity Payments and Capacity Charges for the following year. These parameters include:

- Fixed Capacity Payments Proportion ( $FCPP_y$ ), such that  $0 \leq FCPP_y \leq 1$ ;
- Ex-Post Capacity Payments Proportion ( $ECPP_y$ ), such that  $0 \leq ECPP_y \leq (1-FCPP_y)$

This paper proposes that the values of these parameters for 2014 remain unchanged from the 2013 values.

## 3 BACKGROUND

In December 2006 the RAs issued a Decision Paper titled ‘Capacity Payment Factors’ ([AIP-SEM-231-06](#)). This paper sets out detail on these factors, including the proposed values for 2007. These values have been consulted upon annually since 2007, but have not been changed and are currently as follows:

$$FCPP_y = 0.3$$

$$ECPP_y = 0.3$$

The Fixed Capacity Payments Proportion (“**FCPP**”) sets the proportion of each monthly Capacity Period Payment Sum to be allocated on a fixed basis. This is based on a demand forecast and the payments are set before the start of the year.

The Ex-Post Capacity Payment Proportion (“**ECPP**”) sets the proportion of each monthly Capacity Period Payment Sum to be allocated according to the ex-post Loss of Load Probability (“**LOLP**”) in each Trading Period in the month. The payments are determined after the end of each month.

A third value, the Variable Capacity Payment Proportion (“**VCPP**”) is implicitly derived from the values of the FCPP and the ECPP. This is set such that:

$$VCPP = (1 - FCPP - ECPP)$$

i.e. since 2007 VCPP has been set at 0.4

The VCPP sets the proportion of each monthly Capacity Period Payment Sum to be allocated according to the forecast LOLP for each Trading Period in the month. These payments are determined before the start of the month.

## 4 TSO REPORT

Capacity Remuneration Mechanisms (“**CRMs**”) have been the subject of much scrutiny across Europe in 2012 and 2013. In particular the European Commission issued a consultation on generation adequacy and capacity mechanisms<sup>1</sup> and ACER has provided an opinion to the European Parliament on CRMs<sup>2</sup>. One of the messages coming from the on-going CRM consideration is that where CRMs are in place they should not distort cross border trade.

On 27 June 2013, the RAs wrote to the Transmission System Operators (“**TSOs**”) asking them to produce a report on the effectiveness of the current payment proportions and the potential impact any changes to these proportions might have.

That report is published along with this consultation. In the report the TSOs make a number of points, including:

- For some Interconnector Users there is some positive correlation between forecast demand and their interconnector nominations, i.e. they import less at times of low demand. To a lesser extent, the same Interconnector Users’ nominations are correlated to forecast LOLP.
- However the remaining Interconnector Users show no correlation with any of the market parameters listed above.
- An analysis of the Ex-post capacity payments showed that payments are low at times of high wind generation in the SEM. This is because wind generation is an input to the outturn Loss of Load Probability calculation, i.e. there is unlikely to be a shortage of generation at times of high wind generation.
- Ex-post capacity payments are also low at times of low demand in the SEM. Demand is an input to the Loss of Load Probability calculation, i.e. there is unlikely to be a shortage of generation at time of low demand.
- High Ex-post capacity payments occurred at times of high demand and low generation margins, which is providing the correct market signal to reward generation when it is needed.

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<sup>1</sup>[http://ec.europa.eu/energy/gas\\_electricity/consultations/doc/20130207\\_generation\\_adequacy\\_consultation\\_document.pdf](http://ec.europa.eu/energy/gas_electricity/consultations/doc/20130207_generation_adequacy_consultation_document.pdf)

<sup>2</sup>[http://www.acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Opinions/Opinions/ACER%20Opinion%2005-2013.pdf](http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Opinions/Opinions/ACER%20Opinion%2005-2013.pdf)

- The Ex-ante capacity payments provide an incentive to import power into the SEM, and a disincentive to export power. This could be seen as influencing economic trading on Moyle and EWIC.
- The ex-post portion of Capacity Payments appears to be providing the correct incentives and does not represent a barrier to trade. However, the ex-ante proportion could be influencing economic trading on the interconnectors. If a greater proportion of the capacity payment were applied ex-post, this effect would be reduced.
- The present CPM is providing the correct signal to generators to reward generation availability at times of stress to the system; Eirgrid does not see any compelling new evidence to change the CPM proportions at this time.
- Eirgrid/SONI recommend that the appropriate way of rewarding capacity that is provided by interconnection should be considered in the design of the new market arrangements for implementing the Target Model.

## 5 PROPOSED SETTINGS

The RAs have noted the analysis and recommendations made by the TSOs, which are detailed in their report. On consideration of these, the RAs do not believe there is sufficient evidence available to suggest a change from the current payment proportions is appropriate for 2014.

The proposed payment proportions for 2014 are therefore:

$$\mathbf{FCPP_y \text{ for 2014} = 0.3}$$

$$\mathbf{ECPP_y \text{ for 2014} = 0.3}$$

The VCPP is thus implicitly proposed to be retained as:

$$\mathbf{VCPP_y \text{ for 2014} = 0.4}$$

The RAs recognise the limitations of the TSO analysis and remain mindful that these payment proportions have the potential to influence trading across interconnectors. On this basis the RAs are minded to consider further whether making changes to the payment proportions for 2015 is appropriate. Any considerations on this matter will be cognisant of developments in other Capacity Remuneration Mechanisms across Europe and in the SEM European integration project.

## 6 VIEWS INVITED

Responses are requested on two issues:

- Should the payment proportions for 2014 remain the same as those for 2013?
- What considerations should the RAs take into account when determining the factors for 2015?

Comments should be addressed (preferably via email) to Kenny Dane by **5pm on 23 October 2013**.

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