The Single Electricity Market (SEM)

Fixed Cost of a New Entrant Peaking Plant

for

the Capacity Payment Mechanism

AIP/SEM/07/14

ESB Power Generation Response

ESB Power Generation (PG) welcomes the recent publication of Fixed Cost of a New Entrant Peaking Plant for the Capacity Payment Mechanism (AIP/SEM/07/14) consultation by the Regulatory Authorities (RAs). PG is pleased to have this opportunity to submit comments on this paper.

The RAs asked for respondent's views of liquidity of the secondary market in gas capacity and on the effect of the proposed changes to BGE's gas capacity booking arrangements.

There is limited liquidity in the secondary market in gas capacity in Ireland and PG believes that there is very little if any liquidity in Northern Ireland. A new entrant peaker could not rely on the secondary market in gas capacity as capacity may not be available on the day. This leaves the proposed short term products proposed by BGE. If a peaker is scheduled to run in the indicative actual schedule (IAS) they would be able to purchase such day-ahead capacity. However, if they were not scheduled in the IAS they would not purchase capacity and if they were required to run on the day they would be relying on the illiquid secondary market. As there is no guarantee that capacity would be available in this market the peaker may have to burn distillate and therefore would have to factor into its bids the probability and impact of this.

PG, therefore, believe that the SRMC of a peaker should include the day ahead gas capacity price with a risk element that the unit will be obliged to run on distillate if there is no secondary capacity available.

The RAs examined a single new entrant peaker entering the market rather than an economic efficient number entering to displace more expensive units. PG believes that it would be more correct to assume that entry is efficient and therefore more than one unit would enter.