



**Single Electricity Market  
Capacity Payments Mechanism  
FCPPy and ECPPy for Trading Year 2011**

**Decision Paper**

**13/09/2010**

**SEM-10-063**

## 1 CONTENTS

1	Contents .....	2
2	Introduction .....	3
3	Background.....	3
4	Consideration Of Responses .....	4
5	Decision on Proposed Settings.....	4

## 2 INTRODUCTION

On 21 July 2010 the SEM Committee (SEMC) issued a Consultation Paper entitled 'FCPPy and ECPPy for Trading Year 2011' (SEM/10/045). Five responses were received from the following parties:

- Consumer Council
- Endesa Ireland Limited
- IWEA- Irish Wind Energy Association
- NIE Energy Limited
- Viridian Power & Energy

This Decision Paper sets out the SEMC's decisions in relation to that Consultation Paper.

## 3 BACKGROUND

In December 2006 the Commission for Energy Regulation and the Northern Ireland Authority for Utility Regulation (the 'Regulatory Authorities') issued a Decision Paper entitled 'Capacity Payment Factors' (AIP-SEM-231-06). This Paper set out a number of decisions relating to parameter settings for the SEM Capacity Payments Mechanism (CPM).

Included in these parameters were the Fixed Capacity Payments Proportion (FCPP) and Ex-Post Capacity Payments Proportion (ECPP) for the 2007, 2008 and 2009 Trading Years.

The Trading and Settlement Code (T&SC) stipulates that the FCPP and ECPP are to be set by the Regulatory Authorities on an annual basis. This Consultation Paper addresses this requirement and sets out the SEM Committee's proposal for the values of these parameters for the 2011 Trading Year.

The existing parameters, decided upon in the aforementioned Decision Paper are as follows:

**FCPPy for 2007/8 = 0.3**

The FCPP for 2007/8 dictates that 30% of the Annual Capacity Payment Sum (ACPS) is to be allocated to the Fixed Capacity Payment Stream for the relevant Trading Years.

**ECPPy for 2007/8 = 0.3**

The ECPP for 2007/8 dictates that 30% of the Annual Capacity Payment Sum (ACPS) is to be allocated to the Ex-Post Capacity Payment Stream for the relevant Trading Years.

A third parameter is implicitly defined by the above:

**VCPPy for 2007/8 : (1 – FCPPy – ECPPy) = 0.4**

The VCPP for 2007/8 dictates that 40% of the Annual Capacity Payment Sum (ACPS) is to be allocated to the Ex-Ante Variable Capacity Payment Stream for the relevant Trading Years.

The same parameter values were used for the 2010 Trading Year.

## 4 CONSIDERATION OF RESPONSES

Of the five responses received, all welcomed the opportunity to respond to the consultation paper.

- The Consumer Council wished the RAs to keep in mind that its primary objective of any decision is to protect the consumer and the value of the capacity payments mechanism FCPPy and ECPPy for trading year 2011 should represent the most beneficial option for consumers both in terms of price and level of service.
- Endesa Ireland welcomed the consultation and considered that the current values be maintained.
- IWEA stated that the ex-post component of the capacity payments framework is ineffective as generators cannot respond to a signal that is unknown until after the fact. They believe that this component should be removed from the capacity payments structure. However, they very much welcome the SEM committee's efforts to increase regulatory certainty by proposing the parameters remain unchanged for 2011 and IWEA would like to formally support this proposal.
- NIE Energy – Power Procurement Business (“PPB”) welcomed the opportunity to respond to the consultation paper. They support the retention of the existing settings for the parameters FCPPy, VCPPy, and ECPPy for use in the 2011 Trading Year pending the review as part of the medium term review.
- Viridian restated the concerns they had raised in the consultation for the 2009-2010 settings. VPE had previously responded to a consultation on this topic calling for a change to the relative weights of the parameters from 0.3 – 0.4 – 0.3 (F-V-Exp) to 0.6 – 0.2 – 0.2. This was proposed to increase certainty for investors in the market, while retaining a short term capacity incentive.

All five respondents felt that as these parameters are included within the CPM Medium Term Review which is currently underway, this would be a more appropriate forum within which to raise their issues in relation to the CPM and the parameters. They all felt it was appropriate to maintain the existing settings for FCPPy and ECPPy for the trading year 2011, pending the outcome of the review.

## 5 DECISION ON PROPOSED SETTINGS

The SEMC therefore proposes to retain the existing settings for FCPP and ECPP for the Trading Year 2011:

**FCPPy for 2011 = 0.3**

**ECPPy for 2011 = 0.3**

Under the TSC algebra, the magnitude of the Variable Ex-Ante component (VCPP) is a simple function of the above two parameters and is thus implicitly proposed to be retained as:

**VCPPy for 2011 = 0.4**

All of these parameters will be fully considered as part of the CPM Medium Term Review.