IWEA Response to SEM Consultation on Capacity Payment parameters for 2011

20th August, 2010

IWEA welcomes the opportunity to comment on this consultation on parameters for capacity payments for 2011. We understand that a more detailed review of capacity payments will take place in the Medium Term Review and very much look forward to engaging in that process.

We would note that many of the issues to be considered in the capacity payment framework are very closely interlinked with considerations in the energy market and ancillary services framework and we believe that it is important that all individual reviews recognise this. In our detailed response to last year's consultation on the dispatch principles and construction of the market schedule we noted that as renewable penetration increases it is anticipated that average energy market revenues will fall. We believe that this is reflective of a move from a market dominated by short term operating costs to one dominated by long term capital costs. In such a market the role of capacity payments will become more important and it is important that these payments are adequate and sufficiently predictable to support investment. We also believe that it is important that the overall package of energy, capacity, ancillary service payments and other incentives are designed to incentivise the development and operation of an efficient portfolio of generation that meets the island's needs effectively.

IWEA believes 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. We believe that this component should be removed from the capacity payments structure.

However, we fully support the comment in the consultation paper that more detailed analysis would be required to support any changes. We 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.