

**NIE Energy Limited  
Power Procurement Business (PPB)**

**CPM Medium Term Review  
Work Packages 1 to 5  
Historical Analysis of CPM  
And Proposed Decisions**

**Discussion Paper**

**SEM-10-046**

**Response by NIE Energy (PPB)**

10 September 2010.



## **Introduction**

NIE Energy – Power Procurement Business (“PPB”) welcomes the opportunity to respond to the CPM Medium Term Review discussion paper.

### **Comments on Work Package 1 – Historical Analysis of CPM**

PPB is surprised that the analysis of the distribution of payments compared to the plant margin only considers the first six months of 2009. It would have been better to have assessed the full period from the commencement of SEM as was done for the sections 3.1.1 and 3.1.2 to enable more informed consideration, including seeing the effect over a full year. It is no surprise that night time payments are proportionally higher than those made during the day and indeed this is an issue we highlighted in previous responses to consultations on the CPM.

### **Comments on Work Package 2 – Review of Capacity Requirement**

PPB agree that the impact of transmission constraints on the ability to maintain security of supply to the generation security standard should be monitored to assess the materiality of the risk and identify if some action is required to mitigate the risk.

PPB has concerns about the treatment of wind and has raised this in each of its responses to the annual consultations on the capacity requirement. We consider that the methodology whereby the wind profile is deducted from the demand and from generation is flawed, resulting in an understatement of the required margin. This is supported by the analysis in Table 5.1. which shows the capacity requirement reducing as the proportion of variable generation increases which is counter-intuitive. It also results in ever reducing margins and given that peak demand in 2010 was in excess of 6.5TW, the analysis with high wind indicates a capacity requirement that effectively results in no plant margin.

PPB continues to disagree with the use of aspirational FOPs in the determination of the capacity requirements and believe the rolling average of actual FOPs should be used to determine the correct amount of capacity required to deliver the requisite security of supply.

### **Comments on Work Package 3 – Deduction of IMR & AS & BNE Peaker Plant Options**

While we agree with the theory of the Generation Security Standard, in practice it is unlikely to be acceptable for load not to be served for eight hours each year and in PPB’s experience, having been responsible for generation security in Northern Ireland until 1999, there was never an occasion where there was insufficient generation as actions were taken (e.g. on the demand side) to manage the situation and to avoid customer load shedding.

We also agree that the volatility of the IMR would result in perverse signals that would wholly undermine the primary purpose of the CPM to deliver stable and predictable capacity signals.

We believe IMR should be ignored in the determination of the BNE cost. The potential for regulatory or political intervention in circumstances where customers are being disconnected is high and as a consequence, it is extremely unlikely that an independent generator could finance a peaking plant project unless there is a clear capacity shortfall which would further increase the risk to security of supply.

With respect to the query in relation to the use of FOP in the calculations, notwithstanding our view that it is not appropriate to deduct any IMR, the risk of not being available at a time of a capacity shortfall would relate to planned outages as well as FOPs.

The position on Ancillary Service revenues is also dependent on how the ancillary service payments are reflected through the Bidding Code of Practice in the energy market. Hence both need to be considered to determine what residual or net AS revenues would be earned by a BNE generator and only this residual should be deducted from the BNE cost. We would also note that GPI charges should also be taken into account.

A further matter to be taken into account in the determination of the BNE cost is the impact of TLAfs which will depend on the enduring solution adopted.

#### **Comments on Work Package 4 – BNE Peaker Plant Fuel options**

The issue of gas capacity will need to be carefully considered as the market proposals develop. However indications in Northern Ireland are that the cost of interruptible capacity will increase to similar levels as firm capacity. In addition, the postalisation arrangements that require a fixed level of recovery regardless of capacity or volumes means that while costs may be avoidable in any settlement period, the year end reconciliation mechanism may serve to re-charge that cost to maintain the required revenues for the gas asset owners.

#### **Comments on Work Package 5 – Exchange Rate for CPM**

PPB generally agrees with the proposals. However, there remains an oddity in the separation in time between the determination of the exchange rate used in the calculation of the BNE cost and hence the Capacity Pot, and the rate (ACERy) published by SEMO for payment in the following settlement year. It may be more sensible to use the same exchange rate for both.