

Capacity Payment Mechanism Workshop

6 June 2012

On 6 June 2012, the Regulatory Authorities hosted a workshop on the “*Fixed Cost of a Best New Entrant Peaking Plant & Capacity Requirement for the Calendar Year 2013 Consultation Paper (AIP/SEM/12/029)*”¹. Due to some of the comments raised during the workshop, the Regulatory Authorities are issuing clarification on a number of points within the consultation.

- 1. Deduction of Infra Marginal Rent** – it is the intention of the RAs that the formula used to calculate the deduction of Infra Marginal Rent will be applied prior to the calculation of the 2013 Annual Capacity Payment Sum, and then fixed for three years. It is intended that the only changes in the calculation over the next three years shall be the Capacity Requirement and indexation of the costs of the BNE. Due to the System Services Review (DSE) multi-stage consultation process, the RAs reserve the option to review the Ancillary Services reduction in future years of this period, if they believe it is appropriate to do so.

Clarification was also requested on the ‘Bid’ element of the Infra Marginal Rent Deduction calculation. The average bid price of existing peakers was taken as a proxy for the bid price of the BNE. These bid prices were taken on 31 March 2012 (the same day as exchange rates and fuel prices were sourced for the BNE calculation).

The ‘bid price’ was calculated by averaging the bid price of the peakers at Ballylumford, Coolkeeragh, Kilroot, Ipower, Rhode, Tawnaghmore and Cushaling. For each unit, the weighted average bid was calculated as follows:

$$\text{Weighted Av Bid Price} = \frac{\text{No Load} + P_1 Q_1 + P_2 (Q_2 - Q_1) + \dots}{\text{max capacity}}$$

¹ http://www.allislandproject.org/en/cp_current-consultations.aspx?article=75c548a7-34ee-497c-afd2-62f8aa0062df

- 2. Annual Capacity Exchange Rate** – it was raised that fixing the BNE Price in Euro terms for three years, but setting the Capacity Exchange Rate annually would introduce significant risk for market participants based in Northern Ireland. The purpose of fixing the BNE is to introduce stability into the Capacity Payments Mechanism. In acknowledgement of this, as part of the consultation into the Trading and Settlement Code Annual Parameters, the RAs will consult on the fixing of the annual capacity exchange rate.

- 3. Single Electricity Market WACC** – concerns were raised that the analysis on the Single Electricity Market WACC was included only within the consultants’ report and not within the main consultation paper. The RAs would like to iterate that it welcomes responses on **any and all aspects of the consultation**, including issues described within the Appendices, and the points raised above.

In addition to the clarifications above, the RAs are extending the deadline for receipt of responses to the consultation to **19 June 2012**.