



22 June 2015

Mr Kevin Baron  
Utility Regulator

By email: [kevin.barron@uregni.gov.uk](mailto:kevin.barron@uregni.gov.uk)

Dear Kevin

## **SEM – consultation on Capacity Requirement and Annual Capacity Payment Sum**

We welcome the consultation on the Annual Capacity Payment Sum (ACPS) for the Trading Year 2016. We have set out below our high level comments on the proposals - we are not in a position to comment on the technical aspects of the consultation, though we note that the general methodology used in previous calculations of the ACPS has remained the same, which is clearly important.

In the short-term the proposals will clearly result in a significant reduction in the capacity payment sum which will benefit all consumers across the island, with a significant benefit to Large Energy Users. All users will unreservedly welcome the proposals to reduce the Capacity Payment with cost issues remaining a key issue for CBI members in Northern Ireland, though security of supply issues still remain critically important.

While the consultation period has been extended, as the proposals have raised some significant concerns with generators, it is important that the decision regarding the ACPS for 2016 is not delayed.

CBI has consistently stressed the importance of balancing the short term needs associated with competitive energy pricing with the long term requirements for sustainable pricing to ensure security of supply, and decarbonisation of the energy sector. We have also argued that all the participants in the energy market, including consumers, need more timely indications of policy changes which impact on stakeholders eg consumers are highly critical of tariff changes at short notice which have significant budgetary implications, and there have been several cases of this in recent years.

A key part of ensuring competitive pricing in the longer term is minimising regulatory risk and ensuring there is a transparent and predictable regulatory structure/framework in place – this is essential if we are to encourage continuing investment in the energy market which will deliver security of supply at the lowest cost. At a time of comprehensive market reform on the island in relation to energy, capacity and auxiliary service markets it is particularly concerning that generator participants have raised substantive concerns with the CBI regarding the current ACPS proposals.

**Director-General:**  
John Cridland CBE  
**President:** Sir Michael Rake  
**Registered No:**  
RC000139 (England & Wales)  
**Registered Office:**  
CBI, Cannon Place, 78 Cannon  
Street, London EC4N 6HN

t: +0289 010 1100  
f: +0289 010 1119  
ni.mail@cbi.org.uk  
[www.cbi.org.uk](http://www.cbi.org.uk)  
@CBItweets

**CBI Northern Ireland**  
2nd Floor, Hamilton House  
3 Joy Street, Belfast BT2 8LE

While there has been acknowledgement that the Regulatory Authorities have indicated for some time their concerns about the size of the capacity pot, there is specific concern that the proposals to reduce the value of the ACPS significantly were not sufficiently signalled in advance and were not predicted, while the re-balancing of revenue streams contemplated by the I-SEM high level design have not taken place. There are also concerns about the appropriateness of the WACC being proposed, which appears to be based on network assets, which are not directly comparable with generation assets.

We would welcome further explanation of the security standard used to determine the ACPS. The security standard used in this Consultation appears at odds with the higher and more conservative approach taken when reviewing the NI security standard which has resulted in additional costs being faced by NI businesses. Whilst the standard used in NI may be more appropriate, we are concerned with the lack of consistency shown by the Utility Regulator on this issue.

So while the short-term benefits are clearly beneficial to consumers in lower prices, and particularly to Larger Energy Users, we would welcome reassurance that the Regulator Authorities have considered the wider, and longer term implications of these proposals and the potential impact these proposals may have on security of supply, particularly with regard to Northern Ireland. We would also welcome an explanation why earlier signalling of the intention to make the fundamental changes to WACC in particular, were not forthcoming, and ensure that lessons are learnt from this in the future.

We do not wish to see any delays in decisions on the ACPS for 2016. However we would want the Regulatory Authorities to ensure more timely indicators are provided in future on policy decisions which have significant impact on all the energy stakeholders.

Regards

A handwritten signature in black ink, appearing to read 'Nigel PE Smyth', with a horizontal line underneath.

Nigel PE Smyth  
Director, CBI Northern Ireland