Summary of Responses Received to a Proposed Decision by the Commission for Energy Regulation on the Review of Market Prices

6th August 2002
CER/02/106

Introduction

The Commission for Energy Regulation published a proposed decision regarding market prices on the 23rd July 2002.

The Commission received comments on these proposals from respondents, which are summarised in this paper. Any further comment on the submissions detailed below must be submitted by the end of business August 15th 2002. Submissions should be forwarded to:

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Information Provision

One respondent welcomed the Commission's commitment to release information necessary to project spill levels into the future thereby providing some level of certainty to participants as to the size of this exposure going forward.

Another respondent welcomed the Commission's intention to publish a decision regarding access to information.

Changing the Spill Price

One respondent had serious concerns about the Commission's proposal to amend the Spill price in the market. It was the respondent's view that the current formulation of the spill price is correct.

One respondent was disappointed that the Commission had moved from its previous position of a single price and felt that the proposed solution increased complexity, was less transparent and was less likely to promote competition in the market.

Another respondent felt that a single price is a necessary step to providing a competitive market. While accepting the concerns of suppliers that using the VOLL x LOLP calculation increases uncertainty, they pointed out that this was not the only method of setting the single price and these concerns could be abated by using another methodology.

Another respondent commented that it would agree with the Commission's original assertion that a single market price is necessary, but is not sufficient, to attract new generation. They stated that the current proposal does not implement a single price and as such will not provide the same incentive to new generation.

One respondent felt that the fact that there is a multiplicity of prices, applying in different ways to different participants, increases the overall complexity of the market and the opportunities for gaming the rules.

One respondent noted that some representatives of Green and CHP participants argued, in the context of a single market price, that they would prefer if the current arrangements continued to prevail for them. However, the respondent remarked that the current proposal is not a single price and serves principally to somewhat increase spill. Therefore excluding Green and CHP from receiving this would appear to put them at a disadvantage.

Capacity Price/Payment

A number of respondents commented on the capacity value chosen and some proposed what they considered more appropriate values.

One respondent queried why the capacity element should be equivalent to the capacity margin rate.

Another respondent stated that the construct where capacity value drops as spill prices tend towards top-up prices gives a perverse signal in that capacity value is reduced at the times of greatest need for capacity in the system.

One respondent estimated that in a full year the proposed capacity element of spill could amount to around €8 Million.

Spill Price Floor

One respondent noted that the current spill price will continue to be allowed to fall below the best new entrant fuel price and queried if this should be the case then it is unclear how this floor price will be applied to green and CHP participants.

Payment Profile

One respondent noted the Commission's objective of encouraging generation and felt that this seems to be at odds with the proposal to set the capacity element at a flat rate over all times, days and seasons. This respondent argued that the closer to real time a price is set the more reflective it can be of actual system conditions.

Another respondent felt that the capacity element should be profiled.

Limit on Payment

One respondent felt that the 350 MW limit adds a further level of complication to an already complicated system. They stated that trading risk is now increased as a new entrant generator does not know whether its power is included in the 350MW limit or not until TQ trading is over. They suggested that no limit should be placed on the volume of capacity value in spill.

One respondent stated that it was unclear how the price will be calculated once the limit is exceeded and clarification was needed as to whether spill by Green and CHP participants contribute to this limit.

Eligibility to receive Capacity Element

One respondent stated that they have a concern about who actually receives this increased payment as there is insufficient detail in the proposed determination paper to determine this.

One respondent stated that they had no objections to the proposal on the basis that suppliers will receive the capacity payment. Another respondent is accepting the changes to the Market Spill Price regime on the understanding that the proposed Capacity Element of the Spill Price will apply equally to any Supplier or Generator who spills energy into the market. Another supplier said it was unclear whether the payment applied to suppliers and argued that it should.

However another respondent felt that if this were the case then Generators both in NI and Scotland could receive this payment through a supplier in Ireland even though they are not in a position to add any system security and this would be wrong.

One respondent noted that it would be wrong and illogical to make capacity payments to a generator who has not fully commissioned their plant and have acceded to the T&S Code but are spilling as part of a pre-commissioning testing regime.

One commentator was concerned that a generator that has nearly reached the end of its commissioning period would seek to have these payments applied retrospectively if they apply to plant, which is still commissioning.

One respondent stated that the arguments as presented by the Commission in support of a revised spill price mechanism including a capacity element apply across the entire market, not just to the non-green sector. The respondent felt that that this provision will result in subsidisation of non-green electricity by the green sector. They argued that higher and more transparent spill price will significantly improve the debt-financing opportunities for future wind generation projects and encourage entry into the renewables sector across the entire market.

Top-Up Price

One respondent commented that the Commission's decision to maintain the Top-Up arrangements for renewable participants recognises the characteristics of renewable power but minimise the financial exposure to risk of under-production should not be offset by increasing suppliers' financial exposure to over-production penalties. They argued that the Commission's paper fails to address concerns of renewable participants to exposure to an unhedged spill price and the associated volatility.

One respondent felt that the Commission's decision to maintain all imbalance arrangements, as they currently exist for renewables effectively penalises the sector for the unlimited access to first-tier top-up. If there was to be a choice for renewable suppliers to accept this proposed arrangement or to maintain the existing arrangements then they should be able to assess the impact but the information will not be available to them until September.

Secondary Top-Up Price

Another respondent welcomed the Commission's proposal to move the Secondary Top Up Price to be in line with the PG/PES transfer price. Another respondent was pleased that the secondary price will continue to be set at the outset of each year and fixed for the duration thus containing the potential price risk exposure to suppliers.

Relativity of Market Prices to Pre-determined Prices

One respondent stated that the Commission appears concerned about where the 'market price' will sit in relation to other, regulated ex-ante, prices and added that they should not be compared with the market price on the basis of price paid in any single trading period.

Another respondent was concerned that the Commission, in reaching its draft decision, was heavily influenced by *the importance of relativity of pricing with ESB setting the highest price*. They argued that they would question this tenet given the value of certainty of a fixed price relative to a variable price. The respondent felt that prices that are not set by market dynamics are not reflecting true system costs and therefore not promoting transparency and competitor response to market conditions. This blunts the benefit of introducing competition to the electricity sector and removes the driver for all parties to seek to squeeze better efficiencies in the market.

Payment Recovery

One respondent noted that the paper does not specify who covers the payment for the capacity element of spill and how this should be recovered from the market. The respondent believed that if this mechanism is adopted then payments should be made by the TSO and recovered via TUOS tariffs.

Another respondent agreed stating that if this capacity it is for all consumers it should be paid for by all consumers rather than simply levied on franchise customers. The proposed mechanism should be managed and controlled by the TSO with the additional capacity costs recovered via the TUOS mechanism.

Implementation of Proposed Decision

One respondent felt that consideration should be given to retrospective application of the capacity value and that this should be applied from when the Minister's direction called for the review, early 2002, and suggest that January could certainly be deemed an early date.

One respondent was concerned that the generator, currently in the market, would seek to have these payments applied retrospectively if they apply to plant, which is commissioning.

One respondent noted that the proposed implementation of the spill price changes is proposed to be 01 August 2002. They argued that as the closing date for comments is 30 July 2002, this allows no time for clarification of the assumptions and system changes.

The respondent stated that the paper contains a number of uncertainties but that a high-level impact assessment has been performed based on a number of assumptions (listed). They estimate to implement the system changes to meet the requirements is between 120 and 130 man-days. Based on the work programme already underway, they estimate that the TESS changes to implement the market prices solution could be made available to the market end October 2002 subject to a number of considerations (listed).