



## **Re: Consultation on Possible Models for a Capacity Mechanism**

Endesa Ireland welcomes the opportunity to respond to the *Consultation on Possible Models for a Capacity Mechanism*.

### *Endesa Ireland*

Endesa Ireland owns a number of generating stations in Ireland and is a participant in the cross-jurisdictional Single Electricity Market (SEM) in operation on the island of Ireland.

The SEM is a mandatory gross pool where generators with an export capacity  $\geq 10\text{MW}$  must sell electricity produced into a pool and suppliers must purchase from the pool. Under the SEM market rules, generators are required to submit their *Short Run Marginal Cost* (referred to as an 'offer') to the Market Operator and the most economic generators available to meet demand are included in the market schedule. The *System Marginal Price*, which is based on the offer price of the most economic next available MW to meet any additional demand, is paid to all scheduled generators. This is also the basis for the price charged to suppliers in buying electricity from the pool.<sup>1</sup>

### *Capacity Proposals*

Endesa Ireland is cognisant that the proposed UK Electricity Market changes will be made against the backdrop of a move towards a regional electricity market, as explicitly envisaged by the European Union's 3<sup>rd</sup> Package. Endesa Ireland considers that any changes to the UK market should take account of any impact it may have on the development of the FUI (France-UK-Ireland) regional market and must ensure that regional market distortions are not created or exacerbated.

Endesa Ireland is in favour of a targeted capacity mechanism with a 'Tender for Targeted Resources', which would give a strategic reserve with economic dispatch (Question 6).

It is submitted that the lead time for Strategic Reserve capacity should vary with the type of technology sought and should include sufficient time for design, construction and permitting (Question 2). Endesa Ireland believes that Strategic Reserve Contracts should endure for up to 20 years so as to provide sufficient income surety for investors (Question 3). Endesa Ireland considers that it should be open to a generating station to exit its Capacity Payment contract and enter the market proper. This would fulfil the objective of providing needed capacity for the system but would not require incentive payments if it is often run in the market.

---

<sup>1</sup> Further information on the market can be found at: <http://www.allislandproject.org/en/trading-settlementcode-decision.aspx?article=ae9d4aa4-888b-48e0-a973-6845d54ca467>



The criteria for selection of strategic reserve should adapt to meet system requirements at the time of tendering, with increased renewables it is evident that greater flexibility will be necessary (Question 4).

Endesa Ireland agrees with the Consultation Paper that the Strategic Reserve methodology and despatch price must be kept independent from short term pressures, otherwise the investment signal would be seriously damaged; provision for periodic review should be made but again, this should not damage investor confidence (Question 7 & 8).

Endesa Ireland agrees that the Strategic Reserve should be sold into the balancing market, at the despatch price, this would ensure that it is kept outside the market to the greatest degree possible (Question 9). Endesa Ireland also agrees that the Strategic Reserve should not be eligible for FiT CfD support (Question 10).

Endesa Ireland welcomes the Consultation's desire to allow providers outside GB to participate in Strategic Reserve through interconnection, and urges that this option be developed.