



Response to SEM-15-032

**Best New Entrant cost, Capacity Requirement and
Annual Capacity Payment Sum for 2016**

For the attention of:

Kevin Baron (Kevin.Baron@uregni.gov.uk)

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Prepared by:

**Ger Fullam
Managing Director
Kore Energy
Unit 4, Ballisk Business Park
Donabate, County Dublin
Ireland**

**Tel: +353 (0)1 808 5555
Fax: +353 (0)1 808 5554
Mobile: +353 (0) 87 2020 011
Website: www.kore.ie**

Registered Number 403186 (Ireland)
Registered for VAT: IE6423186E



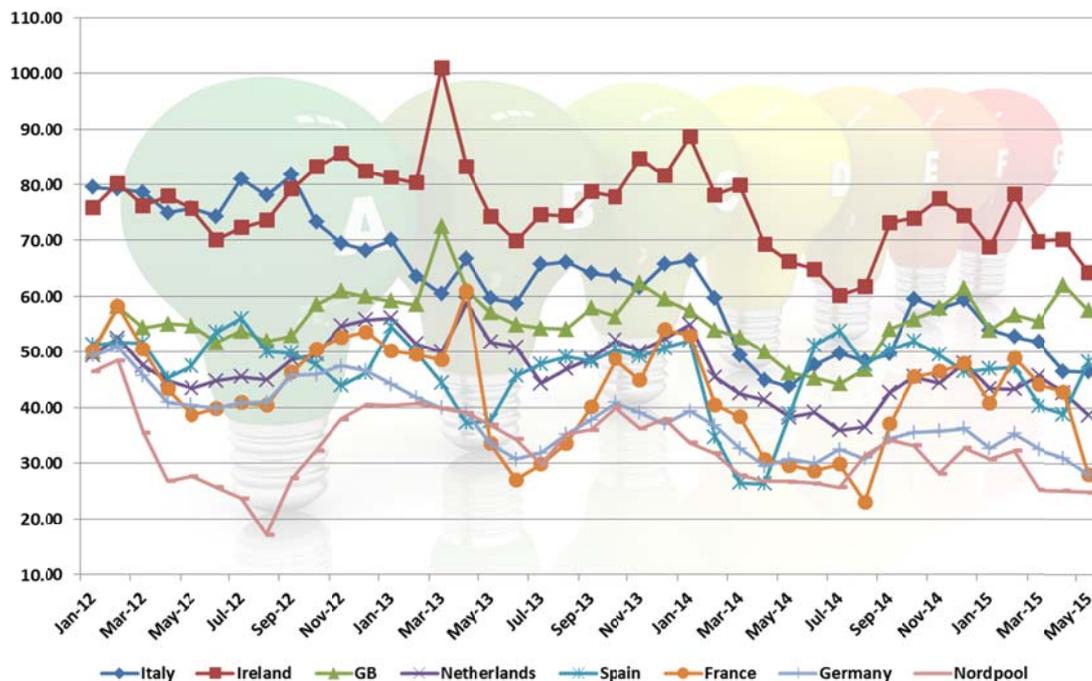
Introduction

Kore Energy provides energy procurement and energy price risk management services to a significant number of large energy users in Ireland and currently manages circa 2,700 GWh of electricity on behalf of large electricity users. Our clients include 5 of the country’s top ten energy users and global leaders in the pharmaceutical, IT and Food sectors.

Capacity payments are a key driver behind the premium in Irish power prices over key European wholesale power markets:

Kore Energy notes the proposed reduction in the Annual Capacity Payment Sum (ACPS) to €463,103,448, which represents a reduction of circa 19.3% on the ACPS for 2015. Despite this welcome cost reduction, we remain concerned at the continued significant contribution of the ACPS to Irish wholesale power prices which remain uncompetitive in the context of the broader European market. As evidenced in Figure 1, below, Irish wholesale power prices have traded at a significant premium over key European markets on a consistent basis over recent years.

Figure 1: European monthly wholesale power price comparison: Baseload power, €/MWh (Source: Argus, Spectron, SEMO)



Determination of ACPS for 2016/2017 should be aligned with future I-SEM CRM values:

We are also concerned that the ACPS is being set with reference to mechanisms which have largely been agreed between the years 2005 and 2012, without incorporating the output from work currently underway in relation to the development of the Capacity Remuneration Mechanism (CRM) which will replace the current Capacity Payment Mechanism (CPS) in October 2017.

At the recent CRM stakeholder workshop on the CRM, on 8 May 2015, there was considerable reference to capacity payments being made at times of supply scarcity only, once I-SEM is implemented. In contrast with the current CPS, we would expect that this would result in a significant reduction in the total sum of money paid to generators in the form of capacity payments. Assuming that this is the case, we request that the Regulatory Authorities / SEM Committee review their proposals for the continued payment of inordinately high capacity payments to generators through 2016 and 2017.

On a related point, given that a key initial objective of the current CPS was to provide a positive investment signal for new entrant generators, we question how the CPS for 2016 and 2017 can serve to this this, as power generators will already be looking to the format of the new CRM when evaluating the viability of any future projects.

Given the impending changes in structure to the Irish power market with the implementation of I-Sem in October 2017, we urge the Regulatory Authorities and SEM Committee to take the opportunity now to improve the competitiveness of Irish wholesale power prices by implementing a more substantial decrease in the value of the Annual Capacity Payment Sum (ACPS) for 2016 and for 2017.

End.