



**Airtricity Response to
Bidding the Opportunity Cost of Carbon Allowances**

SEM/08/005

Airtricity welcomes the opportunity to comment on the RA's consultation on bidding the opportunity cost of carbon allowances. We fully support the RA's proposed position to not amend the Bidding Code of Practice (BCOP) and to not allow generators bid less than the full opportunity cost of carbon. This is a positive proposal for the market.

We welcome the RA's acknowledgement that making such a fundamental alteration to the BCOP at this early stage in the SEM's lifetime will create a perception of there being a high risk of regulatory intervention in the market. It is important to establish and consolidate the credibility of the market. Particularly given the consensus achieved across participants on the issue in the market design phase, it would have been a retrograde step.

The full pass through of carbon will encourage the development of "green" suppliers in the market. This will facilitate "green" suppliers to offer competitive tariffs, resulting in a further deployment of renewable energy. This will contribute towards meeting renewable penetration targets, assist with security of supply and encourage competition in the market.

Full pass through of carbon will ensure that dispatch decisions are made on environmental, as well as fuel, cost optimisation grounds. Without the inclusion of carbon, more fossil intensive plant is likely to be dispatched. Introducing flexibility into the bidding of carbon allows fossil generators to lower their prices when the wind is blowing, lessening the reward to renewable generators. This would discourage investment in renewable generation.

Airtricity fully agrees that it is the role of government, and not the regulator, to take action - if action is needed - on redistributing windfall gains from full pass through of carbon allowances. The consultation mentions Spain as an example. We would only comment that - as in Spain - there can be great practical difficulty in recovering these windfall gains from market participants who view these allowances as their assets. If the government was to pursue such a policy and was to manage to acquire a portion of these gains through some form of taxation, we would strongly advocate the recycling of these funds. The consultation mentions smart metering or transmission development, which while worthy uses have little relation to bidding the full carbon cost. If the concern is to keep down generation costs, then one focus could be pool payment incentives/penalties to ensure that generators act more flexibly.

It should also be noted that the current draft Directive before Europe on the Emissions Trading Scheme is advocating full auctioning for power generation from 2013.

The RA should be commended for not altering the BCOP and ensuring that generators do not bid less than the full opportunity cost of carbon.