

Chapter 4: Strike Price



Strike Price – 1/3

- There are a number of inputs to the Difference Charge and Payment element of the Capacity Market.
- The first input, the Strike Price, is extremely important as it is the price which triggers the reliability incentives, and the Supplier hedge, through Difference Payments and Difference Charges. It is like the price for a one-way Contract for Difference: if the reference market price goes above the Strike Price then the option is called, i.e. these payments and charges are triggered, if it doesn't people are paid as normal. Difference Charges and Payments are calculated from the volume of the energy trade or non-delivery / imbalance in the relevant market, and the difference between the price received for that trade (the Market Reference Price) and the Strike Price.
- The Strike Price must not be so low that it is lower than the running costs of most Capacity Market Units or too high that it is never going to be triggered, blunting the incentive to be reliable. The price is based on an inefficient unit's actual fuel costs. A number of different unit types, and therefore fuel or unit costs, are considered including gas, oil, Demand Side Units, and adjustments for carbon and efficiency. The maximum of the resulting input prices is taken to be the Strike Price. Therefore the Strike Price can change over time, representing the least efficient and most expensive of these units.

Strike Price – 2/3

- This is to ensure that no unit is disadvantaged through a strike price lower than the price it would reasonably expect to offer into the market to recover their costs. If this were to happen, it could trigger difference charges on the unit, incentivising it to trade its power in that period, but the unit would not be able to recover their costs through their net revenue because their net revenue would be at the strike price, which is below the price which reflects their costs. To prevent the strike price requiring inefficient or high cost units to run at a loss in order to meet their capacity requirement, the Strike Price tracks the core costs of those units.
- The values for the oil, gas and carbon elements are taken from standard industry fuel price indices, being updated with a single value every month. There are a number of parameters determined by the RAs which feed into this price also, including transport adders and carbon intensity factors. The most important ones are the DSU Floor Price, and the thermal efficiency of the reference conventional unit. The values decided for these for I-SEM go-live are 500€/MWh and 15% respectively.

Strike Price – 3/3

