



Integrated Single Electricity Market (I-SEM)

Capacity Remuneration Mechanism Detailed Design

Consultation Response from

BORD NA MÓNA 

The logo for Bord na Móna, consisting of a yellow sun-like symbol above a green wavy line, with a red diamond shape at the bottom right.

SEM-15-044

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1 CONSULTATION RESPONSE

1.1 RESPONDENT DETAILS

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1.2 GENERAL COMMENTS

Bord na Móna (BnM) welcomes the opportunity to respond to the *Capacity Remuneration Mechanism Detailed Design Consultation Paper*. In the first instance, BnM acknowledges that this is the first of three consultation papers as part of the Capacity Remuneration and represents the fundamentals of the CRM design.

Bord na Móna has endeavoured to address all sections contained in the paper. Notwithstanding the specific comments, answers and opinions proffered for each question, Bord na Móna believes that there would be merit in publishing a Proposed Decision in advance of the final decision giving the likely varied responses from market participants and the flux of the ETA work stream.

BnM would also like to take the opportunity to reiterate the importance of unit by unit based eligibility criteria and that the CRM auction should be open to all generation on the power system.

Finally, in addition to the topics covered in the Paper, Bord na Móna sees merit in a deeper dive (via further industry engagement) into the relationship between scarcity pricing, performance incentives and the balancing market.

As ever, we are available and would welcome the opportunity to discuss the contents of this submission (including issues around partially supported hybrid generation units) with members of the Project Team at their convenience.

For and on behalf of Bord na Móna,



Dr John Mac Namara.

2 CONSULTATION QUESTIONS

2.1 Capacity Requirement

A) Feedback on position to retain the all-island security standard of 8 hours of LoLE

BnM is of the opinion that the All- Island Market should be aligned with the other European power systems. As the paper states, the system is currently managed against a nominal generation security standard of 8 hours LoLE, which is generally recognised as being at the higher end for developed economies. However, in reality the all-island power system is effectively operating to a much higher standard, evidence suggests a LoLE approaching zero hours. In terms of an appropriate LoLE for the proposed Capacity Market, it would appear that a harmonised approach, aligned with neighbouring markets such as GB and France which are operating to a nominal 3 hour LoLE, would be a rational progression.

B) Preferred Method of accounting for unreliability of capacity

BnM supports in principle the concept of 'de-rating'. De-rating offers the opportunity to account for the actual or rather the expected performance of eligible plant, in this regard BnM considers secondary trading of ROs, as the flip side of 'de-rating' and welcomes the RA's commitment to develop this concept in the second CRM consultation later this year.

C) Accounting for Demand forecast uncertainty

BnM sees the benefit of Accounting for Demand uncertainty using the optimal scenario approach, provided of course that there is transparency as to how inputs are derived and obtained. However, the very nature of developing the numerous scenarios necessary to 'discover' the optimum scenario (i.e. that with the 'least worst regret cost') whilst theoretically elegant, is inherently complex with a degree of latent subjectivity. Instead, opting for the 'Worst Case Scenario' as the basis for forecast uncertainty is a relatively simple and transparent exercise, more in keeping with the general principles of Capacity Mechanisms (generation adequacy). Accounting for demand forecast uncertainty should be conducted in an open and transparent manner so as to allow participants access to the underlying information and the calculation methodology.

D) Single capacity zone

BnM supports the consultation proposal to continue with a single all-island zone for the pricing of capacity.

- E) Detail of any other consideration respondents feel that we should take account of when determining the capacity requirement for the CRM

While appreciating that ICs will be considered as part of the 2nd CRM consultation paper, it would, however, be remiss of us not to highlight concerns for calculating capacity requirements when there is uncertainty as to how ICs will be treated. We note the recent Ofgem de-rating factors for ICs feeding the GB network as well as Ofgem's clarification that future wholesale prices in the I-SEM are expected to be lower than those forecast in GB suggesting west to east flows. Factors such as these may need to be considered in the future CRM consultations.

2.2 Product Design

A) Approach to Setting the Reliability Option strike price

- a. Floating strike price approach which is indexed to the spot oil or gas price.

Bord na Móna supports a floating strike price which is indexed to the spot price of fuel.

- b. How do we choose a reference unit (should it be based on actual plant on the system or a hypothetical best new entrant (BNE) peaking unit as currently used for setting the Annual Capacity Payment sum)

With regards to choosing a reference plant, on the balance of past experience Bord na Móna would support the option of using an actual plant as the reference. However, in such a scenario, this should not be seen as support for simply equating the marginal bid price of the reference plant with the RO strike price, as discussed below.

Firstly, the recent regulatory uncertainty in relation to the BNE calculation for 2016, illustrates our concerns around theoretical (and hence administratively determined) reference plants.

Using an actual plant, the technical characteristics are a matter of public record, however it is important that the Strike Price derived from the Reference Plant must also include objective costs (start-up, VOM, etc) as well as an adder for revenue foregone from PCAP for the duration of the security standard (eg 3 hrs).

- c. Should we grandfather this reference unit where a multi-year RO is sold by new capacity?

Bord na Móna supports grandfathering of the reference unit in the case where a multi-year RO is sold in order to ensure a degree of certainty for capacity providers.

B) The implementation of scarcity pricing in the I-SEM balancing Market

Bord na Móna supports in principle the concept of ‘pricing scarcity in the I-SEM’. However, and notwithstanding the discussion at the recent workshop, BnM would support a ‘deeper consultative dive’ into scarcity pricing. It is unclear from the consultation paper and workshop what would constitute a scarcity event and how such an event (and the pricing of same) would interact with the new Balancing Market (BM). Perhaps scarcity could be addressed outside the current CRM consultations? It may be more helpful to look at this in line with the ETA work stream on Balancing Market / Imbalance Pricing.

C) The choice of market reference price options from amongst the options presented and consistency with key objectives

At this stage it is difficult to be definitive about the reference market given that the dynamics of the respective markets remain to be finalised and are currently under consideration in the ISEM - ETA work stream.

However the consultation paper has comprehensively provided the pros and cons associated with each proposed Market choice. Bord na Móna appreciates that in terms of ‘incentivising availability’, the Balancing Market is the most appropriate candidate as the reference market. However, referencing the SP against the BM may be suboptimal in terms of the other ‘key factors’ driving the choice of MRP. In particular, these include, from the consumer’s perspective, impacts on IC trading in the DA market as well as potential issues of market power, both of which could negatively influence the wholesale price passed through to end users. For market participants that are providing capacity, the obvious concern is the basis risk between the DA and the BM – capacity providers should not have to include a basis risk premium into their auction bids. Given the polar nature of the using either the DA or the BM (and accepting that on balance the DA is probably the most appropriate choice) as the MRP, a compromise, as per the blended/split options may deliver a workable solution.

In addition to the pros/cons listed in the consultation paper, there are other matters that could be material to their implementation including whether the split/blend will be calculated at a gross or individual provider level, the complexity of verifying participants’ positions in the case of a stress event, as well as the Gordian knot that could be created in terms of the relationship between RO and traditional forward hedges that exist between generators and suppliers. However, considering the above, BnM is of the opinion that there is merit in further exploring these ‘mixed’ options as a potential alternative to what is expected to be the default MRP of the DAM.

D) Whether the RO volume and/or the additional performance incentives should be load-following.

Bord na Móna believes that, on balance, additional performance incentives and RO volume should be load following.

- E) The requirement for and the design of additional performance incentives including
- The form of additional incentives
 - Obviously, any discussion on additional performance incentives is fundamentally a function of the choice of the MRP – given the temporal distance between the DAM and real time ‘stress events’, there is a case for ensuring that capacity providers are properly incentivised to deliver at time of system scarcity.
 - Scarcity based triggers for performance incentives
 - It would appear logical that scarcity based triggers should apply at times of system stress rather than being ‘always on’. Such an approach could also be designed to reward over-delivery in times when the scarcity trigger has been activated.
 - Caps and floors on incentives
 - There is a not-so-subtle balance that needs to be struck between progressively incentivising capacity providers and driving participants into bankruptcy. BnM therefore sees merit in implementing pre-defined limits in the CRM. As mentioned earlier in this submission, and again in light of ‘performance incentives’ and ‘penalties’, the proposed CRM must be designed and implemented from the go-live date with a secondary market for ROs.
 - Performance incentive for renewables and DSU’s
 - In the interest of equity, the CRM must be blind to technology and notwithstanding de-rating considerations, simply treat a MW of capacity as a MW of capacity. For DSUs, the same requirement for being physically backed as that applicable to conventional generators must also be applied and evidenced for the duration of the contact period.
 - Performance incentives during the pre-commissioning phase
 - BnM supports ‘performance incentives’ (PIs) during the pre-commissioning stage – the milestone approach as implemented in GB could form a useful starting point for developing such a series of PIs. It is expected that the detail will be further developed in future CRM consultations.

2.3 Eligibility

- A) The options presented in relation to the eligibility of plant supported through other mechanisms

Bord na Mona believes that all plant should be eligible to participate in the Capacity remuneration mechanism without prejudice, including supported plant. As outlined, it is desirable in equity to allow different technologies and units compete on an equal basis to provide capacity in the I-SEM and this should result in the most economically efficient provision of capacity.

On the topic of the treatment of supported generation, BnM does not believe that allowing supported generation participating in the CRM would result in overcompensation or increased costs to consumers. It must be noted that existing (and future) support schemes are approved under SA rules and that such schemes are designed to address specific areas of public policy – prohibiting participation of capacity in the CRM purely on the basis that it is contributing to a specific policy objective is inherently inequitable.

- The options for eligibility of demand side and storage providers

Although not currently participating in this area, Bord na Móra supports a level playing field for all participants and as such believes that there should be no barriers to entry for Demand side and storage providers, given that our position is to support a capacity mechanism that is technology neutral and assessed on a unit by unit basis. However, the corollary is also true – that there should be no ‘special’ treatment for DSUs – i.e. all ROs should be uniquely and physically backed for the duration of the contract.

- Do you have a view on the technology vs plant specific approaches to de-rating

Bord na Móra supports a plant specific de-rating approach rather than a generic technology specific approach, unless there is an extremely narrow definition for technology plants. Given the ‘lumpiness’ of the all island power system, the range of different plant types on the bars and the fact that for existing units technological characteristics as well as historical performance are in the public domain. It would not be too onerous an exercise to carry out plant specific de-rating.

- Do you have a view on the historic projection or hybrid approaches to de-rating

Bord na Móra would favour de-rating based on the historic performance of the plant as opposed to projected performance. It should be noted that the length of the historical assessment period will have to allow ‘carve outs’ where plants either opted to upgrade equipment or took an extended outage to address non-recurring maintenance events.

- Do you have a view on grandfathering of de-rating factors?

BnM supports the grandfathering of de-rating factors as it consistent with the principle of regulatory certainty and offers a degree of stability to capacity providers. However BnM accepts that the grandfathering of de-rating factors may cause issues for wind, particularly if DS3 does not deliver the projected SNSP level. However, provided the mechanism affords participants the opportunity to bid in volumes up to a maximum of their historic de-rated capacity, then the matter is moot. This obviously assumes that the mechanism is based on discretionary bidding – which BnM supports – we appreciate the RA’s concerns around the potential abuse of market power, but are of the opinion that such concerns can be specifically addressed in the appropriate work-stream. This mandatory/discretionary dichotomy does, however, raise the wider issue of prescriptive bidding rules, not just the matter of portfolio players simply withdrawing capacity, but rather a potential requirement to justify the economic/commercial rationale for bids submitted to the auction.

- Do you have a view on options presented with respect to the non-firm generation

Bord na Móna supports participation in the CRM for all plant on a unit by unit basis. In this respect, Bord na Móna supports option 1 outlined in the paper: non firm generation being eligible to bid, subject to the same de-rating factors as firm generation of the same technology. BnM believes that plant participation should not be limited in this respect.

It would be informative if historical data and future forecasts could be systematically examined (perhaps by the TSO) to ascertain the materiality of the impact on dispatchable generation with non-firm access to the transmission network in times of system stress. Intuitively, it is expected that scarcity events will most likely occur at times of low wind when ‘evacuating conventional generation’ from behind (wind-induced) constraints may not pose operational difficulties for the TSO(s).

- What evidence should an aggregator be required to show physical backing

Bord na Móna agrees that an aggregator should have to demonstrate that it is physically backed for the volumes bid into the auction. The aggregator should at minimum provide evidence that the discrete individual units physically exist, that they are capable of providing capacity and that contractual arrangements or evidence of a PPA are in place. While the evidential requirement should not be unnecessarily burdensome, it is important that it is comparable with that required from ‘conventional’ capacity providers e.g. in terms of indentifying the individual units and matching the tenor of off-take contracts with the RO duration.

- Should there be a min / max size unit that can bid into the RO auction via an aggregator and if so what is that threshold

There should no restriction on the size of units that can bid into the RO auction via an aggregator, provided that the ‘size’ does not trigger market power concerns.

- What pre-qualification criteria should be applied?

There should be strict requirements for pre-qualification for providers to demonstrate their eligibility to partake in the CRM auctions. It is envisaged that pre-qualification criteria would require further consultation with industry, ideally through a focused Working Group, in order to finalise the detailed design. It would be important that pre-qualification would appropriately allow for development delays that are beyond the control of the bona fides developers.

- Detail of any other considerations respondents feel that we should take account of when determining policy in relation to eligibility of both existing a new and refurbished plant.

Table 4-4 in the consultation paper appears to delineate a pretty exhaustive list of the evidential requirements for new plant and refurbished plants. As noted previously, BnM does not believe that participation in a support scheme designed and approved to further specific public policy objectives should be included in the pre-qualification criteria, and as such this citation should be removed from table 4.4.

2.4 Supplier Arrangements

As noted previously, Bord na Móna is not an active 'supplier' in the conventional meaning of the term. At a high level BnM supports arrangements that are fair and transparent and as such would favour a continuation (or where necessary) an evolution of current SEM procedures as the natural starting point for supplier arrangements in the I-SEM.

- A) Whether the recovery of CRM option fees from Suppliers should be on a flat, profiled or focused basis.

In line with BnM's comments above, there would appear to be merit in implementing a profiled approach for collecting option fees from suppliers.

- B) Whether the Supplier credit cover arrangements for the I-SEM CRM should be broadly similar to those under the SEM, and whether / what credit cover arrangement should be introduced for capacity providers.

In line with BnM's comments above, BnM supports the continuation of broadly similar arrangements to those in existence today – however, that being said, there may be an opportunity to rationalise the credit cover and collateral arrangements for the CRM akin to those proposed for the energy market.

- C) Whether the costs of exchange rate variations (arising from differences in the €/£ exchange rate at the time capacity is procured and its subsequent delivery) should be borne by capacity providers or mutualised across the market.

BnM supports the concept of mutualising the risk across the market and notes the comment and concerns of the RAs in terms of who would have the necessary treasury function to manage the FX trading.

2.4 Institutional Framework

- A) Are the above outlined governance arrangements suitable for implementation of the I-SEM capacity mechanism

BnM sees no reason why the I-SEM should depart from international norms and have a body other than the TSO(s) as the Delivery Body. In a similar vein, BnM supports the RAs minded to position that the MO responsible for imbalance settlement in the new arrangements will also be responsible for the settlement of capacity payment and charges.

- B) Which option for contractual arrangements the most appropriate, as assessed against the listed criteria

Instinctively Bord na Móna would favour a rules-based model, primarily because of the certainty and transparency such a model provides.

- C) Are implementation agreements required for new entrants participating in the capacity auctions?

As noted previously, Bord na Móna supports the concept of performance incentives during the pre-commission stage of new (and refurbishment) projects. Implementation agreements and performance bonds are typical instruments which could be employed. However, careful consideration will need to be given to the definition and assessment criteria including the timescale for providing evidence of compliance. As discussed above, BnM believes that the system in place in GB is a good starting point to develop a system better suited to the vagaries of the various consenting regimes (in particular planning and grid connection) on the island of Ireland. In this respect, it may be advantageous to continue actively engaging with industry (a parallel but separate work stream) in developing the detailed assessment/evidential criteria.