Integrated Single Electricity Market

(I-SEM)

Capacity Remuneration Mechanism
Detailed Design

Indaver Consultation Response

SEM-15-044

17 August 2015

1 RESPONDANT DETAILS

Indaver Ireland Ltd currently owns and operates a small, centrally dispatched hybrid renewable generator (17MW registered capacity) in Duleek, Co. Meath. Within the next 5 to 10 years we plan to develop two similar generators in Cork and Belfast. Given the timelines, these facilities could become the first new build/own/operate projects in the I-SEM.

Waste-to-energy hybrid capacity is controllable and predictable, though the operation is driven primarily by waste treatment rather than energy production. The facilities have priority status in the merit order and the Meath facility receives REFIT support on the renewable fraction of output.

For these reasons, areas of key importance to Indaver are:

- Adequate recognition of predictable plant with high availability and a low forced outage rate
- Consideration of new entrants to the system in particular regarding the risks associated with non-firm connections
- Simplicity in design and lowering administrative burden for small scale generators

Our comments as set out below focus on these areas.

Finally, it is noted that Indaver is a member of the EAI and has also contributed toward the EAI submission.

1 CONSULTATION QUESTIONS

1.1 CAPACITY REQUIREMENT

Indaver agrees with the EAI submission in supporting an all-island security standard of 3 hours LoLE. As highlighted by EAI, the security standard in I-SEM is likely to have direct impacts on the level of capacity on the system, rather than only being used to determine the capacity pot as it is in the current market. A 3-hour security standard is the most prudent step to take at this time.

Regarding the unreliability of capacity, we would support the de-rated approach as long as the defined fraction reflects technology specific capacity type. A waste-to-energy facility for example has a very low unforced shutdown rate lending to high availability. We would be concerned that grouping waste-to-energy with other less performing plant would misrepresent the technology's high levels of availability.

1.2 PRODUCT DESIGN

We do not support the introduction of additional generator performance incentive mechanisms above and beyond the CRM. In our view, in principle the CRM itself should provide sufficient incentive to be available during periods of scarcity. These mechanisms also further increase the risk of generators receiving overall negative payments from the CRM mechanism.

Regarding reference market pricing, it is acknowledged that the short term incentive would be stronger if the reference price were to be the balancing market (BM) with scarcity pricing. As noted in the consultation, however, there are clearly DAM liquidity issues to be resolved in using the BM as a reference market. We also have serious concerns regarding the basis risk if Day Ahead Market (DAM) offers are accepted, but the payout is against the BM price. This would particularly affect predictable generators like waste-to-energy facilities.

Unless these issues can be resolved without introducing excessive complexity, it is difficult to support any other reference market than the DAM.

Finally, we agree in principle with the RO volume being load-following assuming the reliability option contract is based on a fixed volume over the year.

1.3 ELIGIBILITY

As noted above, Indaver's waste-to-energy facility in Co Meath is in receipt of REFIT 1 support. In our view, generators receiving REFIT payments should be eligible for the ROs.

As noted in the consultation, capacity remuneration reduces the level of subsidy payments required through the PSO support scheme but do not significantly change the net income of renewable generators. We agree that enabling REFIT generators to participate in the RO auctions is likely to be the most economically efficient provision of capacity (subject to the de-rating approach) and is consistent with long term vision as existing generation moves out of support. The latter is a particularly important point while the structure, nature and value of future renewable supports in Ireland remains unclear.

As also noted, rendering renewable generators ineligible for ROs would constitute a change to the profitability of renewable generators in placing more burden on the PSO and making upside less likely for third-party REFIT PPA off-takers.

Although technology specific, it is also important to flag that in the context of the Meath waste-to- energy facility, only part of the output is renewable. This fraction is variable due to the variable nature of the fuel (e.g. municipal waste) composition, and is calculated ex-post for annual REFIT submissions. If the renewable fraction of the facility were to be ineligible for ROs, it would not be possible to calculate the available "non-renewable" RO capacity that the facility provides on a real time basis. This would pose a considerable administrative challenge.

In relation to other administrative requirements, a requirement for generators to have a signed connection offer to be eligible for RO auctions would pose a commercial risk to project developers. This would require generators to assign 25% of non-refundable connection costs towards a distribution connected generation project without any certainty regarding a RO revenue stream. It draws a link between the connection regime and the auction process, which is unclear. As a potential developer of two small scale hybrid predictable plant on the system, this would add an additional risk burden.

We would also raise concerns about the proposals for the treatment of plant with non-firm access. In our view, making non-firm plant ineligible for ROs could deter developers considering new entry to the system, and therefore impact on investment in the system.

Furthermore, developers will face difficulties in providing firm access dates when considering a RO contract for an extended period e.g. 10 years. This will make it difficult for developers to have any certainty regarding revenue through the RO. Under this arrangement a non-firm generator would be placed at a disadvantage.

We would therefore support Option 1 (Eligible to bid, subject to the same de-rating factors as firm generators of the same technology) in relation to non-firm generation.