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Submission to SEM Committee on I-SEM Capacity Remuneration Mechanism Detailed Design

in response to CRM Consultation Paper SEM-15-044 2nd July 2015

Prepared by Ierne[1]

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"*Wind does not cause curtailment any more than power stations cause constraint.*"

[1] Ierne Ltd is an energy policy specialist company, also involved in renewable energy project development and consulting. Details of its activities, publications and the author's bio are at www.ierne.ie

The Irish Wind Farmers Association wishes to make a brief set of comments on the main points at issue at this early stage in the development of the I-SEM Capacity Remuneration Mechanism:

1. Assessment criteria

We note that the SEMC continues to mix legal obligations and policy choices in these apparently comparable assessment criteria. We repeat that the legal requirements are not subject to compromise, and ought to be treated as part of the design framework within which policy choices are made. Here we refer to the internal market requirements and the rules of the Renewables Directive. In the assessment criteria, the latter are only incorporated implicitly through the environmental criterion which is not adequate.

2. Eligibility

- Wind must be eligible in CRM. Capacity made available by wind ought to be entitled to be rewarded to the extent that it assists, like all other market participants, as is the case in SEM. In particular wind projects that are out of support see this as essential to their survival, and it is also useful to projects in support.

- Under REFIT and with the R-Factor calculation, revenue from capacity payments is not additional, but is offset against supports. So capacity payments reduce PSO costs, reducing the negative impact of those charges in the minds of consumers. That provides an additional incentive for supported projects to make their capacity available, on top of the fact that they seek to do so in any case to earn energy payments.

- The support scheme for renewables is now being reviewed, and is required by state aid rules to move closer to the market. I-SEM is replacing SEM, and the treatment of supports in I-SEM is still under discussion. The above arguments would need to be reviewed for the new support scheme, and its integration with I-SEM, as these emerge.

3. No loss

Until quite recently, the expectation was that wind would be excluded from CRM due to the use of a reliability option (RO). This suggested an unfortunate choice of mechanism, since the power source targeted to provide around 40% of total demand was to be excluded, and that would inevitably have distortional effect on I-SEM as a whole.

However, the contribution made by Peter Cramton at SEMC's CRM Workshop on May 8th this year changed that perception. He indicated that, depending on the setting of the so-called 'no loss' clause, wind WOULD participate in the reliability option.

However, this point is not overtly discussed in the consultation before us. What it does say at 3.9.18 is as follows:

> *".... Our research suggests that the limits employed in GB and ISO-NE ensure that capacity providers cannot lose money out of the capacity*

regime over the course of a year, even if they deliver no availability, and cause system stress as a result. Such an approach does not appear economically efficient in that it does not allow the market to charge under-performing capacity providers for the true cost they impose on society."

This statement seems to imply that the advice to the SEMC is NOT to incorporate a 'no-loss' clause in the RO. We do not think it would be wise for the SEMC to effectively exclude one of the most significant market participants (wind) from the CRM altogether by accepting such advice. Consequently, we would suggest that such a clause be considered for some categories of generation, such as wind.

4. Mandatory

The combination of mandatory participation in the CRM RO and exposure to losses from that RO would be toxic. Variable sources like wind would be particularly vulnerable in such a situation, and we therefore suggest that such a combination be avoided.

5. In the event that 'de-rating' is applied to wind, it should not only affect the capacity presented to the market, but logically and fairly, it should also apply to costs and penalties.
