

Thomas Quinn
Commission for Energy Regulation
The Exchange
Belgard Square North
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Brian Mulhern
Utility Regulator
Queen's House
14 Queen Street
Belfast
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16th August 2015

RE: Response to Capacity Remuneration Mechanism Consultation Paper (SEM-15-044)

Dear Messrs. Quinn and Mulhern;

Mayo Renewable Power (Mayo Power) welcomes the opportunity to participate in the design of the Capacity Remuneration Mechanism (CRM) through public fora and written responses. Mayo Power is extremely supportive of the phased consultation approach being adopted for the CRM work stream as it enables a high level of input from stakeholders into the design of the mechanism.

Mayo Power is building a 42.5 MW biomass fuelled power plant near the town of Killala, in north County Mayo, Ireland. The Mayo Power plant at Killala will be Ireland's largest independent biomass power plant. The project, which will be fuelled by woodchip biomass, is certified as a high efficiency, combined heat and power facility and qualifies for Ireland's Renewable Energy Feed-In Tariff (REFIT) programme.

Meeting the High Efficiency CHP (HECHP) targets of the REFIT 3 scheme is of critical importance to Mayo Power, and so it is imperative that no other mechanisms adversely impact on our ability to do so.

The proposed design of the CRM utilises one way call options (Reliability Options, or ROs) to incentivise the option holders to provide capacity in the reference market. RO holders will be exposed to considerable commercial risk through the liability to pay difference payments when the option is called.

With these two points in mind, Mayo Power believes the following principles should be adhered to in the design of the CRM:

- Participation in the CRM should not be mandatory
- Participants should be responsible for de-rating their own assets
- Supported participants with additional un-supported capacity should be able to enter that capacity into the CRM
- The Market Reference Price and Strike Price must be carefully chosen to avoid volatility in the CRM

Mayo Power thanks the RAs for the opportunity to respond to this consultation and looks forward to actively participating in the CRM consultation and other work streams going forward.

Yours sincerely,

Philip G. Hirsch

Philip G. Hirsch
For and on behalf of Mayo Renewable Power Limited

Response to Capacity Remuneration Mechanism Consultation Paper (SEM-15-044)

Participation in the Capital Remuneration Mechanism (CRM) should not be mandatory

The I-SEM CRM will utilise one-way call options called Reliability Options (ROs) to incentivise option holders to make their capacity available in the CRM Reference Market. The options are designed to be called during periods of system stress such as large wind forecast error or a forced outage. When the options are called, the option holders are required to pay back a difference payment and are therefore incentivised to sell their power in the Reference Market to offset this difference payment.

The ROs introduce a significant commercial risk to the option holder through the liability to pay potentially extreme difference payments in scenarios where the Market Reference Price (MRP) vastly exceeds the Strike Price (SP). If for any reason the option holder could not sell its power into the Reference Market, the participant could incur severe losses which could theoretically wipe out a year's worth of profits in severe scenarios.

This risk is, of course, the practical intention of the CRM design, as it will provide the necessary incentive to option holders to participate in the Reference Market. It is clear, however, that this significant risk may not be to the appetite of some participants. These participants will be the ultimate holders of the option liability and therefore the choice to take the commercial risk and participate in the CRM should be theirs. Mayo Power therefore supports a non-mandatory CRM. This will give all participants the flexibility to control their own commercial risk in the I-SEM, which is important particularly for assets who cannot guarantee availability at all times such as non-firm or variable generation.

Regarding non-firm generation, Mayo Power believes it is important that the value of such generators – particularly predictable, synchronous generators – is recognised in the CRM and the wider I-SEM design. Such generators often have non-firm status due to sharing transmission capacity with wind generators, but simultaneously provide local backup capacity when wind generation is low. It would therefore be counterproductive to preclude such assets from the CRM, as their capacity can prove extremely important during system stress scenarios involving wind generation, which are likely to become increasingly prevalent as installed wind capacity on the Irish system increases year-on-year.

On a similar note, Mayo Power strongly disagrees with the RA's proposal for non-firm generators to be cashed out at the system imbalance price¹. Such a measure would expose non-firm generation to an imbalance price risk uncorrelated with their ex-ante trades, which would likely be a disincentive to participate in ex-ante markets. Such a decision would further discourage the valuable participation of predictable non-firm capacity in the market, and also directly contradict the I-SEM HLD goal for participants to be incentivised to participate in ex-ante markets.

¹ SEM-15-011: "Energy Trading Arrangements Detailed Design – Building Blocks Consultation Paper"

Participants should be responsible for de-rating their own assets

While Mayo Power recognises the TSO's detailed technical understanding of the Irish transmission system, Mayo Power does not believe that the TSO should be making de-rating decisions on CRM participants' behalf.

As discussed in the previous section, CRM participants will be taking on a commercial risk by entering into a contract to sell one-way call options (ROs). The holder of the RO will bear total liability for potentially considerable difference payments, and therefore the RO holder should be in full control of quantifying and allocating this risk. In other words, participants themselves are best placed to assess the volume of options they wish to sell, as they have the best understanding of their own asset's technical and commercial characteristics. Mayo Power therefore believes that participants who choose to enter the CRM should be responsible for de-rating their own assets, i.e. the extent to which participants choose to participate in the CRM should be their own decision.

Mayo Power does, however, recognise and accept that the TSO will still be required to de-rate participants who are not participating in the CRM, and that certain participants may still wish to nominate the TSO to de-rate their assets on their behalf. The key is that participants are allowed to assess and control their own commercial risk if they wish to do so.

Supported participants with additional un-supported capacity should be able to enter that capacity into the CRM

Mayo Power believe it is important that all participants (e.g. supported, non-firm or renewable generators) are allowed partake in the CRM if they choose to, and on their own terms. As already discussed, such participants offer a tangible value to the power system in terms of capacity provision, and as such should be entitled to remuneration.

Mayo Power would like to highlight a factor for consideration that the RAs have not addressed in the consultation paper: certain generators receiving support (such as REFIT) may only be receiving support up to a certain MW capacity, but may have additional MW capacity which is not covered by the support mechanism. Mayo Power believes that it is important that these generators are be allowed to enter this unsupported capacity into the CRM as standalone ROs and receive remuneration from the CRM for that capacity. Such additional capacity is often held in reserve or extra generating capability above nameplate output and is therefore perfect for supporting the system during tight capacity margins.

The Market Reference Price and Strike Price must be carefully chosen to avoid volatility in the CRM

Mayo Power believes that it is important that the key reference prices used in the CRM are carefully design to ensure that the CRM operates effectively and ROs are only called when actually required.

Mayo Power therefore believes that the Day-Ahead Market (DAM) should be chosen as the reference market for the MRP, as the DAM will likely be the most liquid market with the most robust prices. A DAM reference market will also allow effective linking of CRM contracts with CfDs contracted in the Forwards Market. Mayo Power believes that referencing the ROs to the Balancing Market (BM) would result in a volatile CRM with excessive and undue triggering of option calls due to the likely illiquid and volatile nature of the BM.

Mayo Power disagrees with the assertion that the CRM must be referenced to the BM in order to effectively capture stress scenario signals. If participants are properly incentivised to be available in a DAM reference market, then by virtue of selling power and achieving a position in the DAM the participant should be actually generating come real-time dispatch.

Mayo Power believes that it is important that the SP is not overly volatile as this would again lead to excessive option calls in the CRM. Mayo Power believes that indexing the SP to fuel prices would cause such volatility issues. Mayo Power does, however, recognise the importance of a SP reflects changing market signals. Mayo Power therefore supports the use of a fixed SP related to a theoretical participant, with regular review of the SP as market signals change (within reason).