

NIRIG response to SEM Committee Consultation on the Capacity Remuneration Mechanism Detailed Design (SEM-15-044)

17 August 2015

Introduction

The Northern Ireland Renewables Industry Group (NIRIG) is a joint collaboration between the Irish Wind Energy Association and RenewableUK. NIRIG represents the views of the large and small scale renewable electricity industry in Northern Ireland, providing a conduit for knowledge exchange, policy development support and consensus on best practice between all stakeholders in renewable electricity. NIRIG welcomes the opportunity to respond to this consultation.

NIRIG welcomes the opportunity to respond to this first consultation on the Capacity Remuneration Mechanism (CRM). The CRM has been a fundamental part of the market design on the island of Ireland to date and the move to the Reliability Option (RO) is a significant change which presents a serious challenge to the wind industry. With the increasing levels of wind generation in the market, it is important that wind generation can participate in all aspects of the market.

NIRIG supports the IWEA response to this consultation and would particularly like to emphasise elements of the response below.

Concerns with form of CRM

NIRIG is strongly opposed to the proposal to have a capacity remuneration mechanism based on reliability options (RO) and would urge the RAs to consider a less complex scheme that interferes less with energy market dynamics and the contracting market. From a wind perspective reliability options are problematic because they create implicit penalties when market prices go high in the reference market. By definition, zero cost variable generation drives prices low when it is available (particularly when it comprises such a portion of market demand). Therefore, Contracts for Difference penalties may occur during periods of high demand AND low wind. This means that wind may be punished most severely out of any technology class under the RO. Wind would have to account for this unfair penalty into its RO offer, likely making it uncompetitive. Defining the penalties in this manner, i.e. implicitly saying that periods when wind contributes to a high demand requirement are not periods where there may be a requirement for security of supply, is clearly discriminatory. Wind has an established capacity credit as outlined in the Generation Capacity Statement and this capacity credit needs to be recognised.

The High Level Design decision has not taken these concerns into account and a decision has been taken to proceed with Reliability Options. We note that one of the assessment criteria for I-SEM is “equity” and we believe that the reliability options are not equitable for wind generation.

NIRIG believes that a design principle of the CRM should be that wind generation receives fair payment for its capacity credit contribution to system security. Any other outcome would be discriminatory.

NIRIG believes that the design of the CRM should be such that imports on the interconnector are not rewarded at times of high wind, resulting in wind curtailment.

Impacts if wind does not participate in RO

The SEM Committee should give consideration as to what will happen to CfD premium pricing if wind is effectively excluded for any reason from participating in these auctions. If wind cannot in practice participate in the RO, then any theoretical contribution of wind should be excluded from that calculation. If the generation target is not adjusted for wind capacity credit, then more conventional generation than necessary will clear in the auction, raising costs for consumers. The SEMC should not attribute a theoretical allocation to wind if in practice it is unachievable. Such an approach would raise questions of discriminatory design of the RO mechanism and would constitute overpayment.

If the generation target is adjusted for wind capacity credit but wind is not paid as per the mechanism above, consumers will be getting available wind capacity credit for “free”, an inappropriate allocation of value from wind generators to consumers.

NIRIG also has concerns relating to the impact of the change in CRM on NI generation under both the current NIRO and future CfD. For NIRO supported generation, it should be noted that many projects invested on the basis of receiving capacity payments, and if supported generation was not to be eligible, this would have a significant impact on the investment case for these projects, resulting in greater exposure for NIRO supported generation. For the CfD due to be introduced in Northern Ireland, the eligibility for capacity payments will influence how projects are bid into the auction, and will have a direct influence on the strike price for renewables support.

Capacity Requirement

NIRIG supports the minded to position to base the capacity requirement for the CRM on a single capacity zone, as this is consistent with the market design. However we would use this opportunity to note the importance of the infrastructure required to ensure the efficient functioning of the market. The North South Interconnector is a crucial piece of infrastructure to ensure market efficiency. In light of this consideration should be given to having a facility for more than one zone in the event that there could be more than one pricing zone on the island or the required infrastructure is not in place.

Eligibility

For NIRO supported generation, it should be noted that many projects invested on the basis of receiving capacity payments, and if supported generation was not to be eligible, this would have a significant impact on the investment case for these projects. The impact of wind energy reducing the wholesale price of electricity, which is a significant benefit to the consumer, and the removal of LECs in the UK, should also be taken into account when considering the impact of the CRM on the investment case for these projects.

Summary

NIRIG welcomes the opportunity to respond to this first consultation on the Capacity Remuneration Mechanism. We are strongly opposed to the proposal to have a capacity remuneration mechanism based on reliability options (RO). The reliability option creates implicit penalties when market prices go high in the reference market.

- NIRIG believes that **all** plant should be eligible to participate, regardless of whether it is already in receipt of support. This is consistent with the current approach in the SEM and provides a level playing field.
- NIRIG believes that a design principle of the CRM should be that wind generation receives fair payment for its capacity credit contribution to system security.
- The SEM Committee should give consideration as to what will happen if wind is effectively excluded for any reason from participating in these auctions, in particular the impact on the CfD premium pricing and and Contracts for Difference (CfD) budgets in Northern Ireland.
- Variable renewable generation should not be exposed to additional penalties in the event it is not generating at the time of system stress, due to the nature of the resource.

NIRIG would stress the importance of publishing a proposed decision so that there can be further opportunity for input.