



***Response to Integrated Single Electricity Market (I-SEM)
Consultation on
Capacity Remuneration Mechanism
Detailed Design
Second Consultation Paper***

SEM-15-014

**On behalf of
AES Kilroot Power Ltd and AES Ballylumford Ltd**

5th February 2016

Capacity Remuneration Mechanism

Introduction

AES welcomes the publication of the consultation document on I-SEM Capacity Remuneration Mechanism (CRM) (SEM-15-014) and the opportunity to provide comments on the issues raised. AES would like to submit the following response to the Regulatory Authorities to their consultation.

AES is a global energy company with assets in the all island market consisting of coal and gas fired conventional and CCGT plant with additional distillate fired peaking gas turbine plant and a Battery Energy Storage Array (BESA). AES is a non-vertically integrated independent generator which owns and operates Kilroot and Ballylumford power stations in Northern Ireland with a combination of merchant and contracted base load, mid merit and peaking plant. The responses to this consultation are therefore conditioned by the nature of our current position and portfolio of assets operating in the SEM.

CRM 2 DETAILED DESIGN

This response is submitted with reference to the specific questions raised in the consultation paper and based on our current knowledge on the level of detail that is available on the design of the I-SEM. The answers requested to the questions set out in the relevant sections in the consultation paper are set out below.

SECTION 2 – INTERCONNECTOR AND CROSS BORDER CAPACITY

2.6.1 The SEM Committee welcomes views on all aspects of this section, including
A) Which of the approaches to the treatment of cross border capacity do you prefer and why? (For the Provider Led and Interconnector Led approach, please specify whether you prefer the “Performance based” or “Availability Based” variant).

AES accepts that cross border participation in capacity mechanisms is identified as a priority by the EC as a mechanism to prevent distortion of cross border trade and promote competition and would be an important factor with regard to any State Aid approval process required. The paper presents a number of options for cross border participation in the I-SEM CRM and AES has previously supported a reciprocal provider led approach to participation.

AES views that an interconnector led approach would not be appropriate due to issues of potential conflict of interest with the interconnector owner i.e. the Transmission System Operator (TSO) procuring capacity in the I-SEM whilst operating the capacity market and the transmission system which is contrary to EU Regulation.

AES understands that GB has decided to follow an interconnector led performance based approach which may possibly limit or remove the other options available and the issue of reciprocity becomes the primary concern. Regardless AES still favours the provider led option which although has issues of accountability for non-delivery and difference payments, both with Interconnector availability and when non availability, removes the TSO conflict of interest potential. Again the key concern for this approach would be the reciprocity of the arrangement. Therefore AES agrees that cross border participants should be allowed to participate up to their de-rated capacity but only if a reciprocal arrangement with the GB capacity market is available,

I-SEM and cross border participants should be treated equally i.e. a performance based treatment as used for I-SEM generators.

B) Should the de-rating of interconnectors be based on historic performance, or include forward modelling to project how its performance could change in the future?

AES views that for existing interconnectors derating should be based on the historic performance of interconnectors with evidence provided of the contribution to be expected and relied upon at times of system stress (where performance information is available). However consideration should be given to the fact that historical I-SEM interconnector flows were mostly importing to I-SEM and if, as predicted the GB Capacity shortfall materialises, the balance of interconnector flows may change in the future to exporting and the historical flows particularly in times of system stress would not reflect this future scenario. Therefore a combination of historic performance and predicted future performance would be the best approach.

In addition interconnector flows have been affected by SEM BCoP, capacity payments and GB carbon price floor and AES views that a combination of historical and modelling of future scenarios could be used to decide the derating factors for the Interconnectors.

C) If there is a preference for the “Interconnector led performance based” approach there will be a need to allocate total interconnector flows between specific interconnectors. Which of the specific approaches set out in 2.4.6 do you prefer? These approaches were:

- Balance interconnector utilisation;
- Pro-rata to interconnector metered flow; and
- Complex power flow modelling

AES is not in favour of the interconnector led approach due to the potential conflicts of interest issues, as mentioned previously, which arise with the System Operator (TSO) as Capacity Market operator and also interconnector owner participating in the capacity market, which is contrary to EU guidance. However If this model is adopted then the Interconnector should participate on the same basis as all other capacity providing technologies, including the requirement to prequalify and be physically backed. I-SEM generators will be subject to performance penalties and the interconnector should be treated in the same manner. AES understand this present difficulties in assigning flows to particular interconnectors however this is preferable to an availability based model in which the interconnector would be exempt from Reliability Option difference payments if they are available but not providing energy as obligated.

D) If there is a preference for the “FTR led” approach, which of the specific approaches set out in 2.4.15 (net or gross) do you prefer for the allocation of non-day-ahead flows?

AES accepts that the FTR owner option addresses the issue of TSO participation in the I-SEM CRM and incentivises interconnection. However AES agrees that this option also has problems due to the potential for insufficient congestion rent to cover RO difference payments and the lack of upstream investment incentives for non I-SEM capacity. The requirement to withhold FTR capacity for future auction timeframes contributes to this problem resulting in the aggregate capacity being allocated pro-rata to FTRs held at day ahead stage and results in cross border participants being treated differently to I-SEM participants if they are only required to make difference payments on the I-SEM day ahead market stage. With respect to the allocation of remaining flows based on RO holdings, AES views that allocation should be made net of any allocation arising for earlier day ahead trades.

E) If there is a preference for the “Performance based Provider Led” approach, which of the specific approaches set out in 2.4.25 do you prefer for the allocation of intra-day and balancing market trades?

- As traded – i.e. based on actual cross border trades in the relevant markets

- Pro rata to Reliability Option (in which case – do you prefer “gross” or “net”)
- Same as FTR approach – pro rata based on FTR quantities held.
- Ignore – all in Balancing Market

AES views that the most consistent approach is for non I-SEM providers to participate in the I-SEM CRM on a provider led approach but only on condition that there is a reciprocal arrangement for I-SEM capacity providers in GB. Common derating factors and additional information as described would need to be established and applied consistently ensuring equal treatment.

AES prefers the performance based option of the Provider Led approach where performance is based on actual flows, as non I-SEM participants then face the same incentives, risks and opportunities as those in the I-SEM. Allocation of day ahead flows would be informed by the quantity of FTRs held at that stage. Allocation of the Intraday and Balancing Market flows should be based on an “as traded” basis i.e. actual cross-border trades in the relevant markets.

F) If there is a preference for the “Hybrid” approach:

The Hybrid option splits the rights and obligations i.e. revenue – auction fees and difference payments between the interconnector owner and the non I-SEM capacity owner. This creates the complexity of the need to split auction fees into an I-SEM and Non I-SEM participants, creating zonal prices implicitly or explicitly by auction and spitting the obligation to pay difference payments between the interconnector owner and the non I-SEM participant. Also the hybrid option allows Eirgrid as the TSO, CRM operator and Interconnector owner to participate in the CRM creating the same problem as in the interconnector led option.

Should this be paired with the “Delivery Based” or “Availability Based” provider led approach? Should Interconnector participation be mandated or voluntary?

Please provide a rationale for all of your responses.

Interconnector led approaches increase the potential for conflicts of interest regarding the role of Eirgrid as owner of the EWIC and new function as delivery body for the I-SEM CRM

SECTION 3 SECONDARY TRADING

3.7.1 The SEM Committee welcomes views on all aspects of this section, including:

A) Do respondents agree that direct secondary trading of Reliability Options should be permitted?

AES views that the provision of secondary trading arrangements would be beneficial to the market enabling market participants to trade to cover exposure caused by unplanned or forced outages and to offer a facility for uncontracted capacity to potentially earn some capacity revenue.

B) Should secondary trading of Reliability Options be via an organised secondary platform? If so, which one of the options is preferred?

For reasons of liquidity concentration and transparency AES favours a centrally organised trading platform but recognising that this may take some time to evolve, depend on quantities of contracted and uncontracted capacity and would probably not be present for I-SEM go live, an option for direct bilateral trading between qualified participants should also be permitted at least on an interim basis but also as an enduring feature.

C) Do respondents believe that “back-to-back” trading to lay-off exposure to difference payments should be permitted?

AES views that the options proposed are not mutually exclusive and participants would have a requirement for both. Therefore back to back trading should be permitted in any event as this is simply a financial arrangement with interested parties presenting no transfer of liability from the original auction winner.

D) With respect to the creation of a centralised Reliability Option secondary market platform:

I. Is there likely to be sufficient demand for secondary trading to justify the cost of the development of a centrally organised platform;

AES believes that there could be sufficient demand but is concerned that there would be insufficient volume available to meet the demand depending on the level of uncontracted plant able to sustain participation in the market without a reliability option contract. Without significant quantity of uncontracted plant the secondary market volume would be made up of the difference between the derated and nameplate capacities of the units. One significant outage would use up all the market volume.

II. Do respondents think that capacity providers should be allowed to acquire Reliability Option volume in excess of their de-rated capacity (plus the tolerance margin), and if yes, how the limit on Reliability Option volume for the net primary and secondary volume should be structured? Without this capability it is difficult to say how the secondary market would work. With uncertain levels of additional non contracted plant the market would rely on the difference between derated and nameplate capacity of RO contracted providers. This also provides an incentive to seek to cover obligations and to be able to earn additional capacity revenue by providing cover.

III. What limits should be placed on secondary trading timeframes, including: the timing of secondary trade execution - how soon after the auction should they be allowed, and how late in relation to real time delivery should they be allowed; and the length of the Reliability Option contract which can be traded?

AES views that providing all participants have passed the substantial qualification process, no timing restrictions should be put in place that could limit the possibility of trades occurring and that if participants are willing to trade in the secondary market in a timescale that other participants find suitable then that should be allowable.

There is an argument that restricting trade to certain periods would concentrate liquidity however as unforced outages are unpredictable in nature there is a risk that these periods would not coincide.

IV. Should the Capacity Market Delivery Body maintain the processes and capability to undertake pre-qualification throughout the year, and what service standards are required for processing new applications?

AES views that the Capacity Market Delivery Body should maintain the process and capability to undertake pre-qualification throughout the year at the same standard as for the initial auction.

V. Should a secondary acquirer of a Reliability Option start from a zero position against each "stop-loss" limit, or should the loss transfer?

Accepting that there could be difficulty of keeping track of stop loss limit quantities if re zeroed at transfer AES views that the market should be able to decide which option is more valuable and it may be that both options emerge as different products with different prices. If there is a requirement for these option then the market design should prevent this.

Please provide a rationale for all of your responses.

SECTION 4 DETAILED RELIABILITY OPTION DESIGN

4.7.1 The SEM Committee welcomes views on all aspects of this section, including:

Reliability option contract length questions

A) Principle of Longer Term Reliability Options:

I. Do respondents agree that plant requiring significant investment should be able to avail of longer term Reliability Options?

To incentivise investment in projects there must be some degree of certainty of realisable return and long term contracts would provide predictable revenue to enable project development if successful and cleared in the auction. Without long term contracts it is difficult to see how participants could create justification for investment projects for new or enhanced capacity. AES supports the principle of longer term reliability options.

II. Do respondents agree that existing plant should be restricted to reliability options with a term of 1 year?

AES agrees that existing plant that can continue to provide capacity without the need for significant investment should be able to compete for annual contracts but would also see benefit in the availability of longer term contracts for existing plant.

III. Do respondents believe that longer term Reliability Options should only be available to new-build plant, or should also be available to existing plant where significant investment is being made to enhance or maintain its capability to provide capacity?

AES views that longer term contracts should be available for new build and to existing plant where significant investment is required to enhance or maintain its capability. Where significant upfront investment is needed such as for the AES Energy Storage Solution longer term contracts would ensure lower cost financing options are available.

B) Classification of plant as new, upgrade or existing

I. Do respondents have a view on which approach should be used to classify capacity providers as “new”, “upgrade” or “existing”?

The classification of plant should be evidenced based using both historical and forward looking factors to determine the appropriate classification for each participant and could be determined at the qualification stage. Therefore AES favours Option 2 - the Tangible Facts approach and include the following items:

- Existing plant capability can be based on historical performance evidence along with existing connection agreements, grid code compliance and previous performance data.
- Upgrade or enhanced existing plant, seeking longer term contracts should be required to provide evidence of the proposed magnitude of the upgrade (may be to keep existing capability) including expected results and evidence of financial commitment to the enhancement project.
- New plant, also seeking longer term contracts, should also be required to provide evidence of financial commitment, expected results and application for connection agreement as required for the qualification process.

II. Do respondents prefer the approach of classifying providers as “new”, “upgrade” or “existing”, please indicate your view of the criteria, evidence and thresholds that should be used to inform this classification.

If there is a requirement to distinguish between the eligibility of providers to apply for longer term contracts then the approach proposed seems reasonable. However AES believes the facility to provide longer term contracts for existing plant capability should also be considered to provide longer term security with regard to current locational constraints and network limitations

C) Maximum available Reliability Option lengths

I. Do respondents have a view on the appropriate maximum Reliability Option lengths that should be available to new-build and upgraded plant?

AES is largely agrees with the allocation of annual Reliability Options for existing providers that are continuing to provide their capacity without the need for significant investment. However for new or enhanced provision of capacity other system solutions such as Battery Energy Storage or for continued provision of capacity where investment is required, AES views it is appropriate that an approach aligned with that being proposed in the DS3 System Services process is adopted. In determining bids for DS3 system services new or enhanced capability providers are asked to include the length of contract the require as part of the bid structure, envisaged to be up to a maximum of 15 years. This would also provide a degree of synergy with the System Services process such that corresponding contracts for provision of capacity and system services were aligned.

II. How do respondents view the Reliability Option lengths in relation to the five generic frameworks set out in this section?

AES views that there would be benefits in aligning the contract lengths for the DS3 System Services and Capacity processes. In the DS3 process providers include the required contract duration in their auction bid up to a maximum of 15 years duration which would also align with the general economic life option in the consultation paper and that adopted by the GB capacity mechanism. This allows the option to request a shorter contract duration and also allow a degree of technology specific economic life assessment.

Stop-loss limits questions

D) Do respondents favour the I-SEM Capacity Year running from October to September, with annual stop loss limits applying over that I-SEM Capacity Year?

AES agrees that it is appropriate to apply caps to uncovered Reliability Option Difference Payments incurred and welcomes the provision of an annual stop loss limit. AES currently budgets on a calendar year basis and would therefore prefer the retention of the current capacity arrangement of calendar year as this would align better and reduce the potential for divergence for the final quarter of the year, if a participant was unsuccessful in the capacity auction for the following year or due to exchange rate variance between years.

E) Do respondents believe that “per event/day” and “per month” limits are required in addition to the annual stop loss limit?

AES views that higher granularity “per event/day” and “per month” stop loss limits would be beneficial to improve a participant’s management of losses incurred by uncovered difference payments and maximise the extent to which these can be reclaimed and losses incurred as a result of a single event or series of events in the given timeframe and removing any Reliability Option incentive for the remainder of the year.

AES views the proposal of a monthly stop loss limit on a calendar month basis as a reasonable approach and agrees that the definition of an “event” would require further clarification.

F) Which approach do respondents favour for the definition of the Per Day/event limit?

AES views the definition of an event requires further detailed consideration, the proposed definition of an event settlement day seems to be an appropriate place to start but this could be refined further to a system event based on the insufficient capacity to meet reserves within day.

G) Please provide views on the appropriate levels for the each of the proposed stop loss limits.

Stop loss limits should not be more than the value earned through the reliability option payments and should therefore be set at x1 for the annual auction and for the equivalent monthly and event time periods i.e. a participant should not lose more than can be earned in the relevant time window.

Commissioning Window and Implementation Agreements questions

H) Is a period of four years from the Auction Date to the start of the first Delivery Year appropriate?

AES views that although the CRM and DS3 processes should be kept separate the periods from the auction completion to the delivery of energy for the capacity remuneration mechanism should be aligned with the DS3 System Services projects as participants will most likely want to submit bids into auctions for both system services and capacity in the same time frame. The proposed four year delivery time frame seems reasonable to allow for large project development and substantial completion of construction and also aligns with the delivery periods in GB but the DS3 System Services allows for up to 5 years.

I) Does setting the Long Stop Date at 18 months after the start of the first Delivery Year strike the correct balance between the costs incurred by the market and the ability for delayed or longer-running capacity projects to be completed?

AES is aware of the requirement to have certainty regarding the development of new capacity projects especially considering the impact this would have on the relatively smaller I-SEM market. However construction and commissioning of new plant rarely goes exactly according to schedule and the inclusion of a long stop date in the commissioning window is a reasonable approach to account for delays. AES agrees with the proposed duration of 18 months and with discounting any delay caused by late completion of the transmission or distribution connection works. Also as delays to the project will also affect the delivery of system services the long stop date for both process should be consistent and aligned. Any financial penalties imposed as a result of the delay should be recovered through the proposed performance bond.

J) Are the proposed milestones reasonable?

AES understands that in order to demonstrate progress milestones are required and views that the proposed milestones appear to be a reasonable approach. AES agrees with the proposed three high level milestones demonstrating financial commitment, commencement of construction and substantial completion and again would see benefit in alignment with the DS3 System Services process.

AES agrees that the GB definition of substantial financial commitment and the proposed period of 18 months between auction and achieving this milestone seems reasonable for I-SEM. AES understands the difficulty with defining the commencement of construction phase and would suggest that this could be linked to the site mobilisation clause in the EPC. The substantial completion definition as used in GB and in previous implementation agreements used in Ireland seems appropriate.

K) Are there any other milestones, especially prior to Substantial Financial Commitment, which could be used to add security to the delivery of new capacity?

AES understands the necessity for the early identification of failing projects, the consequential impact on capacity adequacy and the subsequent requirement to procure additional replacement capacity. AES also understand the need to spread the set of milestones across the project and AES favours an approach which tailors the additional milestones required to the technology, scale and complexity of the project providing an appropriate level of scrutiny.

L) What proportion of the contracted capacity is appropriate to use to identify Substantial Completion?

AES views that to allow for potential variances identified post auction and during detailed design, construction and commissioning a 90% value of contracted capacity would seem to be appropriate.

M) Is six-monthly reporting appropriate?

AES views that the level of reporting should be appropriate for the technology, scale and complexity of the project with reporting timelines and detail required adjusted accordingly. AES

supports a 6 monthly reporting timeframe occurring in advance of the auction cycle to ensure additional capacity can be acquired if deemed necessary.

N) Do any (or all) of the reports need to be independently verified?

AES views that reports at a 6 monthly interval could be independently verified but that any additional reporting requirements as in the GB proposed approach should not be excessively onerous and therefore should not require independent verification.

O) Does 18 months provide sufficient time after the Auction Date to achieve Substantial Financial Commitment?

AES understands the need for certainty with regard to development of projects and in normal circumstances 18 months should provide sufficient time to reach substantial financial commitment. However as there may be additional external factors that influence commitment decisions and as such opportunity to revise timescales should be available if based on evidence and any delay is deemed manageable.

P) Is it appropriate to terminate a Reliability Option for failure to achieve Substantial Financial Commitment?

AES understand the need to identify failing projects at an early stage and views that if the circumstances are such that substantial financial commitment has not been achieved and is independently verified as having little prospect of being achieved then it would be appropriate to terminate an associated Reliability Option.

Q) Should failure to achieve any other milestones (within a suitable window) trigger termination of the Reliability Option?

As stated in the consultation paper Independent Verification of some of the milestones may prove difficult to determine and therefore termination should only be associated with the high level milestones or additional milestones that can be independently verified as not having been met.

R) Is it appropriate to partially terminate a Reliability Option if it can achieve 'Minimum Completion'? What level should be set for Minimum Completion?

As stated earlier construction and commissioning can lead to final project results that differ to some degree from the original design. AES agrees that this could only be determined after the start of the 1st delivery year when substantial financial commitment has been made and construction and commissioning have been substantially completed. AES views that it is appropriate to allow for partial termination of the Reliability Option potentially to the value of minimum stable generation or 50% as a minimum completion value as used in GB.

S) If a Reliability Option is terminated under the terms of the Implementation Agreement, should this project be 'sterilised' for a period of time following the termination and be unable to participate in capacity auctions?

AES views that if a Reliability Option is terminated due to a failure to meet one or more of the milestones identified but then subsequently completes and is able to provide capacity, this project should be able to compete in the annual auction providing the completion and new capacity level can be verified independently. AES is in favour of a sterilisation period only until completion can be verified.

T) Should the I-SEM consider terminating Reliability Options if the information submitted as part of the qualification process is discovered to be false or misleading?

AES believes that should false or misleading information be submitted as part of the qualification process and this can be independently verified then the Reliability Option could be considered for termination.

U) Do respondents agree that the level of the performance bond should be based on a pre-estimate of the cost to the market of non-delivery of contracted capacity?

AES agrees that the level of performance bond should provide a strong incentive to go ahead with the investment and complete the project but should not act as an inappropriate barrier to entry. AES agrees that the impact of non-delivery of contracted capacity could result in additional costs to the market for procurement of new capacity. This could present a cost to consumers if the security standard is affected, a loss to capacity providers as the auction would have cleared at a higher price and the total cost is a combination of the two. AES accepts that the cost to consumer is easier to calculate and therefore that this is used to evaluate the level of performance bond.

V) Do respondents agree with the principle that the level of performance bond should rise over time, reflecting increased costs to the market? If not, what alternative principle should be used and why?

AES accepts that the level of cost to the market will be impacted by the notice period given for inability of a project to deliver on its commitment, the time for procurement of replacement capacity and therefore that this should be reflected in the level of the performance bond required. It is also clear in I-SEM that large projects and reliability options will have a significant impact on capacity adequacy if there is a project failure especially with insufficient time to recover.

W) At what level in €/MW does the performance bond create a serious barrier to entry? Does this differ for small vs large plant or for different technologies?

AES views that the level of performance bond should be proportionate to the scale of the project with a low value at the bidding stage and linearly increasing values over the pre delivery period of the Reliability Option this would act as a progressive barrier to entry.

X) Do respondents agree with the principle that use of a fixed €/MW level for all participants, regardless of size, to set the size of the performance bond does not fully capture the costs and risks to the I-SEM and that a more complex approach is needed? Do participants have an alternative preferred method for handling the greater risks to the I-SEM created by larger new capacity projects?

AES agrees that a fixed €/MW performance bond does not completely capture the cost of the risk of non-completion in the I-SEM. Although larger projects do present a greater risk to market costs equally locational capacity on a smaller scale could also present security and cost consequences if not completed. However this presents the danger of unequal treatment for projects due to differences in scale, technology and location and the resulting performance bond setting factors used for each. Keeping in mind the transparency and equity assessment criteria a simple €/MW formula may be the most equitable method to set the performance bond level.

Y) How should the level of the performance bond change over time? Should this have any link to the milestones?

AES views that the level of the performance bond should vary – increase/decrease with progress of the project i.e. the verification of completion of the identified milestones. Completion of significant milestones identified in the implementation agreement should result in reduced risk to the market of having to procure additional capacity at short notice and so should result in a reduction of the performance bond level required.

AES supports the position that the level of performance bond should be lower prior to Substantial Financial Completion as the risk to the market at this stage is low, time to replace would be greatest and it would present a lowest barrier to entry. There is also merit in investigating the potential to phase in the performance bond over time as the historical level of surplus capacity decreases. AES supports the proposed modelling of the impact on the market of a shortage of capacity caused by non-delivery of a new project.

Z) Do you consider that the Time to First Delivery (/Time to LSD) proposed here for the CRM should also apply equally to the delivery of System Services under the DS3 arrangements? If you consider that the time (s) should be different, on what basis / what rationale should they differ? AES believes that whilst keeping both processes separate, there is benefit in aligning the delivery period for both CRM and DS3 System Services as new projects would probably attempt to participate in both processes and may need to secure a Reliability Option and a System Services contract to ensure full revenue recovery.

SECTION 5 LEVEL OF ADMINISTERED SCARCITY PRICE

5.5.1 SEM Committee welcomes views on all aspects of this section, including:

A) Which of the options do respondents prefer (and why) for the enduring level of the Full Administered Scarcity Price (FASP)?

I. VoLL;

II. EU Consistent (e.g. with GB);

III. Euphemia Cap; or

IV. Existing SEM PCAP

The EU Commissions desire to see electricity markets sending the right price signals by allowing prices to reflect scarcity is met by each of the options. The true value of scarcity is the VoLL price however with the split market reference price, the Euphemia Day ahead price cap of €3000MWh effectively places a cap on the day ahead section of the FASP. This would suggest an I-SEM FASP value of no lower than the GB FASP in the other market timeframes to avoid potential distortion of trading between DAM and BM and GB and I-SEM.

B) Do respondents agree with the definition of full load shedding (when Full ASP applies) as set out? If not please explain why, and your proposed alternative definition.

AES does not agree with the proposed definition of full load shedding as corresponding to the current definition of Eirgrid red alerts. Load shedding as a term has an associated meaning in the industry as the disconnection of consumers either automatically or manually as a result of insufficient capacity either short term, due to a system transient, or long term due to inadequacy of capacity. It is possible to have frequency and voltage deviations that do not result in consumer load being shed, also, eroding reserve to meet system demand does not constitute load shedding but is a scenario that would potentially see the issue of an alert warning by the system operator and in the context of administered scarcity pricing, would signal the start of the application of the pricing curve. The examples quoted for a demand control event in GB involve disconnection and therefore the definition of full load shedding should result in actual disconnection. The EU Network Code for Transmission System Operation also gives guidance on system state determination and levels for alert notifications and this process should be in compliance with the development of the EU guidance.

C) Do respondents agree that virtual bidding removes any incentives on capacity providers to withhold power from the DAM or the IDM to sell in the BM? Do you agree that this applies regardless of what market power controls are placed on DAM, IDM and BM bids? Do you agree that this applies regardless of the level of the Full ASP? If you do not agree, please explain why.

AES accepts that the CRM design proposes to provide the bulk of I-SEM capacity through contracted Reliability Options and to place the energy market strike price lower than the Euphemia day ahead price cap of €3000/MWh. Assuming that the strike price is the same in all market time frames (DAM, IDM & DM) then AES agrees that the potential for any incentive to withhold capacity from the day ahead market is removed as RO contracted capacity providers will only get energy revenue up to the value of the strike price.

D) If stakeholders consider that it is appropriate to set the Full ASP at a lower level for an introductory period they should also set out, how long that introductory period should be and why, or alternatively the principles that the SEM Committee should employ in deciding when to move from the introductory full ASP to the higher rate full ASP.

Due to complexity of the new market arrangements covering all sections AES supports the view that the value of full ASP should be set at a lower level for an introductory period in I-SEM. AES supports the view that the FASP introductory period should be for 3 years as per that in GB to allow participants to adapt to the concept of administered scarcity pricing.

E) If you favour a different level of Full ASP, either for an introductory period, or after any introductory period, please indicate the level and justify your response.

AES supports the view that the initial value of FASP in all I-SEM market timeframes should be linked to the Euphemia price cap of € 3000/MWh as this is the market price limit in the day ahead market and to avoid any potential day ahead, balancing market distortion for the introductory period.

F) Do respondents agree with the proposed approach of using a static approach to setting the piece-wise linear ASP function at the inception of the I-SEM, and if not why not? If yes, do you agree with the proposed approach of setting the piece wise linear equation as a function of the remaining MW of available operating reserve?

AES supports the proposed static approach to setting a piece-wise linear ASP function for the inception of the I-SEM and of setting this as a function of the remaining MWs of available reserve.

G) What should the value of X in Figure 12 be?

AES views that the parameter X should be set at a value higher than the proposed strike price such that all available capacity with a reliability option would be called to generate if available.

H) How far in advance of the start of the Capacity Delivery Year should the piece-wise linear function be set. Does this need to be before the T-1 auctions?

AES views that it would be beneficial for participants to know the parameters of the piece-wise linear function well in advance of the T-1 auction. The value of X and the parameters of the function between points A and B are important in the assessment of risks and opportunities concerning the capacity remuneration mechanism and in formulating bids for the auctions.

I) Do respondents think that any changes need to be made to the governance of the target operating reserve policy. If yes, what are these changes?

AES would like to see changes to the governance of the target operating reserve policy to include a requirement for increased transparency in real time. The existing target operating reserve policy contained in the SONI Operational Constraints document contains a static minimum requirement of reserve to be held in Northern Ireland however the EU Network code for Transmission System Operation - Load, Frequency Control and Reserves section requires a more dynamic approach to the monitoring of available reserve in real time with greater transparency of system states and frequency restoration parameters. Increased transparency of system states and reserve requirements would assist in understanding of current system states and administrative scarcity pricing.

Please provide your rationale for your response to all of the above questions.

SECTION 6 TRANSITIONAL ISSUES

6.2.1 The SEM Committee welcomes views on all aspects of this section, in particular:

A) Which of the suggested options (annual auction, block auction, do nothing) do you prefer?

With the lead time from auction to delivery expected to be 4 years the resultant transition period expected to be from November 2017 to June 2021 market participants require some form of capacity payment to sustain their activities and therefore option 3 is not an option for the reasons outlined below. In the absence of full detail on the relevant auction designs at this point AES favours the stability offered by the flexibility of a shorter term auction offered by Option 1 Auction Each Year Separately. This would enable participants to gain confidence that they can secure enough capacity revenue to remain in operation through the transition period each year by allowing the participants the ability to reposition themselves in each year rather than having a single opportunity to win or lose out. This also represents a more simplified bidding process and AES would reserve final opinion until the details of the auction process are published in the CRM consultation 3.

B) If you prefer the do-nothing auction, do you believe this should be accompanied by relatively low levels of Administered Scarcity Price?

AES does not support a “do nothing” option as the removal of capacity payments for the transition period could lead to the exit of plant successful in the auctions not securing enough revenue in the interim transition period to enable them to fulfil their Reliability Obligation commitment i.e. that energy revenues are insufficient to cover the costs of capacity providers.

C) Are there any other transitional issues respondents feel that we should take account of when implementing the CRM?