Capacity Remuneration Mechanism
Detailed Design
2nd Consultation Paper – SEM-15-014

Consultation Response from

BORD NA MÓNA

CER-15/094

January 2016

Introduction

Bord na Móna (BnM) welcomes the opportunity to respond to this consultation on specific aspects of the detailed design of the new post-SEM Capacity Remuneration Mechanism. Bord na Móna appreciates the work of the RAs, their team in preparing the document against the backdrop of interactions with other market design work-streams and the inherent complexity in the SEM Committee's decision for the overall structure of the i-SEM itself.

In responding to this consultation, Bord na Móna has endeavoured to answer each of the questions posed in the paper. However, this has not been possible in all cases, and for the avoidance of doubt, a null response must not be taken as support or otherwise for a given proposition but rather that it was felt that there was insufficient information/analysis available at this moment in time to make and objectively commit to a firm position.

Consultation Questions (Section 2.6)

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).

Bord na Móna, in response to previous i-ISEM CRM consultations, has maintained a position of equity of treatment for all qualifying participants in the CRM, irrespective of geographic location. A 'Provide Led' approach, with reciprocity for indigenous i-SEM providers in the connected markets[1], naturally flows from this high level principle, which is therefore what Bord na Móna formally supports in reply to this consultation question.

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?

The de-rating of Interconnectors (ICs) should be based on an ex-post analysis of the historic contribution of ICs to capacity adequacy (security of supply) under the **relevant market arrangements**. Hence, it is recommended that de-rating of ICs, and the subsequent cross boarder (XB) participation in the i-SEM CRM is delayed until there is sufficient data to carry out a robust ex-post analysis. There is precedent under State Aid approvals for such a staggered approach in implementing CRMs, i.e. early auctions limited to indigenous providers (generation & demand) with access to XB participants opened in later rounds. In arguing for such an approach, it is also noted that where such 'staggering' was previously implemented, there was no fundament change in the underlying energy market arrangement linking the jurisdictions. Obviously in the case of the island of Ireland, this is not true

[1] Bord na Móna believe that XB CRMs markets should be open to all providers who are confident that they can deliver capacity at times of system stress in the market which is remunerating them – for the avoidance of doubt Bord na Móna does not believe that identified capacity can participate in more than one national/zonal CRM

and a longer time period (3 -5 years) to ascertain an objective and realistic IC de-rating factor, would be more appropriate.

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**

N/A - please see response to Questions **A** & **B** above.

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?

N/A - please see response to Questions **A** & **B** above.

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**
- **Pro rata to Reliability Option (in which case – do you prefer "gross" or "net")**
- **Ignore – all in Balancing Market**

In keeping with comments made in response to Question **A** above, equity of treatment between indigenous i-SEM provider and a XB participant must be the underlying principle.

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

- **Should this be paired with the "Delivery Based" or "Availability Based" provider led approach?**
- **Should Interconnector participation be mandated or voluntary?**

As stated above, Bord na Móna is in favour of the simple principle of equity of treatment for all participants in the CRM – therefore it follows that if indigenous providers' performance is measured against 'delivery,' then it is expected that a similar approach must be applicable to XB participants. There can be no justification for shoe-horning in preferential treatment of XB participants under a policy of fair discrimination that is nonetheless expedient in terms of meeting the XB criteria.

Consultation Questions (Section 3.7)

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?

Yes

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

Fundamentally, the need for secondary trading will be a function of price volatility (and participants' risk appetite) in the energy markets. However, at this point in time, accurately modelling (i.e. the likelihood and impact of scarcity events on prices) is difficult.

In most instances, providers who are in receipt of a Reliability Option (RO), will, all else being equal, be focused on covering a) plant trips over short time horizons throughout the course of the year and b) on planned scheduled maintenance during the outage season. The need for a plant owner to cover the latter is perhaps (based on price/scarcity evidence from the SEM) less pressing, while the former, a plant trip, is essentially a random event which cannot be easily predicted, would suggest that a prudent operator may seek to cover his obligations during such occurrences. This suggests 'thin' trading in obligations which may in the first instance be driven exclusively by system 'events' rather than longer term strategic purchases/sales. It would, therefore, seem reasonable in not ruling out an organised market for ROs but that the provision/implementation of same is kept under review following i-SEM 'go-live'. However, in order to offer protection to RO holders (and opportunities to capacity providers) a bulletin board should be available to participants impacted by an event to inform the 'market' that they are looking to divest ROs for a short period – the existing TSO / REMIT web-page may be capable of providing this function.

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

Yes.

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;

Please see comments in response to Question 3.7.1 **B** above – i.e. following 'go-live' provision of a forum for participants to trade (albeit non-standard products) in conjunction with a review after a defined period to the assess the requirement to design/implement a more enduring, organised market- place.

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?

Yes, capacity providers should be allowed to acquire RO volumes in excess of their de-rated capacity – for 1° de-rating factors, as per §2.3.9 of SEM-15-103 where the decision was made such that "*The TSOs have been asked to develop a methodology to determine this requirement, in consultation with the industry, for approval by the SEM Committee"* it is perhaps outside the scope and premature to comment on how net primary volumes should be structured in this response. As regards secondary volumes, it would seem logical to allow pre-qualified participants the opportunity and flexibxility to offer in to the markets ROs up to a unit's nameplate capacity.

The consultation paper refers to the DECC consultation, at §3.4.4, where the notion of imposing 'temporal' constraints on plants wishing to offer the difference between their nameplate and primary de-rated capacity into the secondary market merits further investigation.

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?

Noting comments in response to question **B** and **iii** above, it would follow that secondary trading should be available to participants from immediately post the auction up to real time. In terms of the length of the RO contract which can be traded (in the secondary market), there should be no prescriptive limit.

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?

Yes.

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

No. 'Re-zeroing' of stop loss limits on its face appears inequitable and could lead to perverse transactions.

Consultation Questions (Section 4.7)

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?

Yes.

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

It was understood that a one year tenor for existing plants was a pre-requisite for State Aid clearance?

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?

In principle, Bord na Móna supports making longer term ROs available to existing plants that have made significant investment to enhance and/or maintain their capability to provide capacity.

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"?

Bord na Móna, while appreciating the objectivity of *Option 1: Cost Threshold*, believe that this approach may require additional expert/3rd party input, verification and hence incur additional costs, particularly in instances where the proposed spend is close to the qualification threshold.

An approach based on *Option 2: Tangible Facts* would appear to be simpler and cheaper to administer, providing participants with what in effect would be a menu of exclusive criteria with binary outcomes – i.e. '*is capacity being provided from a site that previously provided capacity'*, or '*is capacity being provided across a new connection',* where answering 'yes' to any of the criteria would be sufficient to qualify as 'new' capacity.

(Note:- this *Tangible Facts* option could also have a criterion of 'threshold spend' as part of the qualification menu, for projects where the new connections/existing capacity criteria is not straightforward).

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.

Please see response to Question **B I** above.

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?

For a given plant/capacity provider, having contract lengths that differ for ROs and DS3 adds to the complexity of getting projects financed (or re-financed). Contract lengths for the different revenue streams (ROs & DS3) should be aligned.

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

Noting the rationale behind the response to Question **C I** above, fundamentally the alignment with DS3 contract tenors should drive the RO contract length – which suggests that if there was a need to categorise such an approach under §4.4.22 – the *Generic Economic Life (eg 15 years)* should suffice.

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?

Yes – there is no compelling reason today, to change the Capacity Year.

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

Bord na Móna sees benefits in the implementation of, in the first instance, a 'per month' limit. Further analysis in respect of the potential distortive and value eroding impacts of 'per event/day' stop losses is required before we could offer a definitive position on these shorter timescales.

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

Please see response to Question **E** above.

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

Instinctively Bord na Móna believes that in order to drive value into the RO option fees, the value of the stop loss must be greater than unity. However, as a smaller player, Bord na Móna has concerns that it may be at a disadvantage to market participants (through no fault or action of their own) who have more substantial (and numerous) generation assets. There is the potential for participants with larger generation portfolios to effectively cross-subsidise capacity (from its de-rated headroom via the secondary market) in instances where one unit, within its fleet and which holds a ROs, is unavailable. A large player with a safety net will be able take cognisance of this 'portfolio' advantage when bidding individual (de-rated) units into the auction.

The above comments are limited to conventional dispatch assets – for intermittent generation sources any stop loss value greater than unity would effectively disbar wind from participating.

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?

In the first instance, and in an effort to be internally consistent, Bord na Móna supports alignment of DS3 and the CRM in terms of auctions, commissioning and delivery periods.

In addition, a simple one size fits all 'commissioning window' may not be appropriate for different technologies. Furthermore, cognisance must be taken of external dependencies which could impact the project timelines but are in practice totally outside the control of the developer.

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?

Please see response to Question **H** above.

J) Are the proposed milestones reasonable?

At a high level the proposed milestones appear reasonable.

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?

Please see response to Question **J** above.

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

The GB value of 90% post de-rating appears to strike a reasonable balance between obligating the developer and protecting the consumer. However, there may be instances, particularly for smaller modular projects, where 90% completion is only achieved when the final sub-unit is commissioned; in such instances there should be some flexibility which recognises both the individual capacity of each sub-unit and the integer number of sub-units which have in effect been awarded ROs.

M) Is six-monthly reporting appropriate?

For a 4 year commissioning window, this equates to eight reports, and while this can add to the administrative (and cost) burden on developers, it would appear appropriate.

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

Although 6 monthly intervals may be excessive, there is merit in having independent verification of the overall development process. Ideally, for these less frequent independent progress reports, it would be advantageous if the CRM Delivery Body accepted progress reports/supplements

independently prepared but not necessarily for the purpose of report RO milestone progress. While independent progress reports are required for financing purposes, the authors (usually 3rd party consultants) are quite specific in detailing and limiting the addressee of such reports. Where such a report is to be 'recycled' for a different purpose and/or audience, there is usually a fee associated with the re-issuing, ostensibly to cover PI outlays.

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

Again, all things being equal, 18 months should be sufficient time to achieve SFC post the auction date, however only last week we have seen how potential political intervention (the proposed SI to modify the Planning & Development Regulations) can drive uncertainty into the market.

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

The default position should be the termination of an RO for failure to achieve SFC. However, noting the comments in response to Question **O** above, in such events there should be an opportunity afforded to the developer to plead mitigating circumstances and commensurate discretion afforded to the Delivery Body to grant a limited extension.

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

No – not necessarily, first it will be dependent on the materiality of the missed milestone, in instances where it is possible for the project to get back on schedule (and still make the LSD) the developer should be afforded the opportunity to present a revised plan to the CRM Delivery Body. Failure to achieve the milestones detailed in the revised plan may be cause to trigger termination of the RO.

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

Bord na Móna notes the concept of the Minimum Completion as outlined in §4.6.29 to 4.6.32 of the consultation paper and believes that there is merit in both keeping a watching brief as to its implementation and its suitability in the i-SEM.

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?

Again it is difficult to be absolutely definitive in providing a simple yes/no answer, as there may be mitigating or aggravating circumstances that should in equity be considered before a project is temporarily 'sterilised'.

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?

Again, if the I-SEM (sic) (presumably the SEMC or CRM Delivery Body?) discover that information submitted as part of the qualification process (including the progress reporting) is false or misleading, they should have the powers to further investigate and the subsequent ability to impose sanction (obviously with an appeals process available to the developer) up to and including termination depending on the materiality and intent (or lack of) behind the submission of the false/misleading information.

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?

Yes – however after the first auction run, the methodology should be reviewed with the goal being to arrive at a figure reflective of the cost of lost revenue to capacity providers.

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?

While noting the RAs concern, that annually increasing the Performance Bond has an impact on the barrier to entry, there must also be a degree of equity afforded to those capacity providers who effectively lost to the 'commissioning' RO holder in the auction.

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?

Bord na Móna notes the Initial Performance Bond used in GB and cited in the consultation paper.

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?

All things being equal, a fixed €/MW level for all participants would appear to be the most equitable and administratively benign solution – however, the uniqueness (i.e. lumpiness) of the SEM/i-SEM may require the development of a more sophisticated approach for larger capacity projects – Bord na Móna, while not in a position to proffer any design suggestions at the moment, would welcome further industry consultation on this topic.

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

Please see response to Question **Y** above.

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?

In terms of being internally consistent with the overall approach contained in this response, Bord na Móna is of the belief that there is merit in aligning the Time To First Delivery (/Time to LSD) proposed for the CRM with an equivalent metric for DS3.

Consultation Questions (Section 5.5)

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

Noting the response to Question **G** above, and the inherent disadvantage smaller market players may face in the auction balanced against the need to drive value into the RO option fee, it would appear that option II (EU Consistent) is the most appropriate enduring level for the FASP.

For completeness Bord na Móna believes the FAST equal to VoLL imposes too great a risk on capacity providers, setting VoLL at the Euphemia Cap may be a route for capacity to bleed out of the i-SEM at time of co-incident scarcity events and PCAP as being obsolete in the 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.

It would appear from the consultation paper that there isn't a formal definition of 'full load shedding' (FLS) contained in §5.2. There is mention in the consultation of FLS "broadly speaking" being equivalent to Eirgrid's 'red alert' and which can be triggered following system voltages and/or frequency deviating 'significantly' below normal levels, but 'significantly' isn't defined. For smaller market participants to specifically answer in an informed manner the questions in §5.2.5, it would have been insightful and helpful if Eirgrid and/or independent consultants (with expertise on system

operations) presented on the technical aspects under consideration at the recent workshop in Dundalk[2].

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.

Yes – although Bord na Móna believes there is also merit in the RAs and/or their consultants publishing further information on the topic

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.

The rationale for an introductory period is to ascertain the impact of the FASP on market participants (both generators and suppliers/consumers) and what factors drive FASP events (in hindsight where TSO actions and dispatch decisions, rather than the market *per se*, were responsible for FASP events. Therefore the duration of the 'introductory period' should persist until a full ex post analysis has been completed on market data following at least 2 years after i-SEM 'go-live'.

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.

Please see responses to Questions **A** above.

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?

Yes.

[2] Notwithstanding the comments in the body of the text, Bord na Móna is, for the avoidance of doubt, aligned with the EAI position which "welcomes the SEMC position that ASP will not apply at times when there is sufficient available capacity, but cannot start/ramp up fast enough leading to a short term reduction in operating. Further to the clarification sought by EAI on this matter it is also our view that Full ASP should not apply at times when there is sufficient available capacity, but it cannot start/ramp up fast enough leading to load shedding (albeit that a high impact, low probability event). Given that I-SEM is a centrally dispatched market, it is important that actions taken (or not as the case may be) by the TSO do not result in undue risks imposed on market participants, which they are unable to manage. The onus is on the TSO to dispatch plant as per technically feasible parameters and therefore it is the responsibility of the TSO to take the appropriate action in the appropriate timeframe during periods of scarcity.

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

Please see responses to Questions **B** above.

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?

Please see responses to Questions **B** above.

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?

Please see responses to Questions **B** above.

Consultation Questions (Section 4.3)

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?

While not providing a preference between Option 1 & 2, Bord na Móna could not support 'option 3 – do nothing' – noting the impact it could have on generators in terms of the classic 'missing money conundrum' of energy only markets as well as the financial risks to which supplier/consumers would be exposed in the absence of ROs.

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

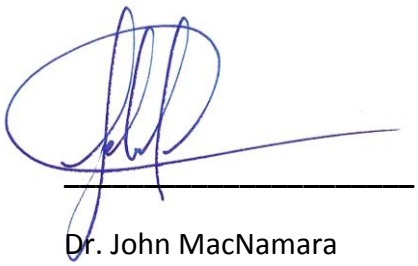
Please see responses to Questions **A** above.

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

Yes – notwithstanding comments in previous submissions made by Bord na Móna in relation to the design of the i-SEM CRM, there have been no indication or details as to the interaction of the RO and units which currently have a SEM status of PPTGs – we would welcome an opportunity to discuss this matter further with the RAs, perhaps on a bilateral basis

In conclusion, should you require any clarification or additional information, please do not hesitate to contact me.

Yours sincerely, for and on behalf of Bord na Móna PowerGen,



Dr. John MacNamara