127 Baggot Street Lower,
Dublin 2,
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DATE: 8th of February 2016

To: Natalie Dowey (Natalie.dowey@uregni.gov.uk) and Thomas Quinn (tquinn@cer.ie)

RE: EAI Reponse to CRM2 Consultation

Dear Natalie and Thomas,

EAI welcomes this opportunity to respond to the second consultation in the CRM workstream. Our response outlines the consensus position of the industry on issues such as cross border participation, secondary trading and transitional arrangements. At a high-level, we seek alignment with SEM energy trading/system services arrangements and arrangements in interconnected markets. We welcome the commitment to secondary trading and transitional arrangements in the period 2017-21 to help our members manage the increased risk that the new market arrangements imply. We strongly reject the 'do nothing' option in the transition as creating an unnecessary risk of disorderly exit and reduced security of supply in this period.

We request further engagement on these issues and detailed design issues such as the stop-loss limit before any final decisions are taken.

1. Treatment of XB Capacity

- EAI favours an approach for treatment of XB capacity that is Provider-led with Reciprocal Treatment i.e. where capacity providers on either side of an interconnector can access each others' respective CRMs (this is the enduring solution we seek at an EU level, however, we recognise that it is not the existing GB approach).
- Cross border capacity providers must be subject to the same obligations to deliver (into the market procuring the capacity) at times of system stress and be subject to the same penalties for failing to deliver. This is necessary in order to; (1) ensure I-SEM providers are competing in a level playing field and (2) promote the objective of security of supply. Furthermore, cross border capacity that is non-dispatchable should be subject to the same auction participation rules as intermittent plant i.e. has complete freedom to not bid.

- Regardless of the approach adopted the de-rating of the interconnector is instrumental in determining the contribution that ICs will make to SoS. In this regard we have a number of significant concerns:
  - The conflict of interest that exists between Eirgrid as EWIC owner and TSO in determining the IC de-rating factor/methodology. Given this very real conflict of interest EAI considers that as an absolute minimum there is a need for an independent third party to develop the methodology for de-rating Interconnectors
  - The lack of historical data in the I-SEM energy market will make it difficult to accurately reflect the contribution from interconnectors.

2. Secondary Trading

- EAI welcomes the decision to facilitate a secondary trading market to help participants manage risk.

- EAI supports allowing capacity providers to acquire obligations in excess of its de-rated capacity (up to nameplate capacity as appropriate) and would advocate that the de-rated capacity restriction is relaxed in sufficient time to allow participants manage their risk.

- EAI supports the use of standard products with the caveat that the products are sufficiently granular to allow participants to arrange appropriate cover.

- EAI supports allowing secondary trading for parties that have already traded and ahead of commissioning provided such capacity is subject to rigorous pre-qualification.

3. Detailed Design

- EAI Supports the indexation of the option fee

- Annual stop loss limits should be set at a level that ensures the efficient operation of the CRM scheme. However, any final decision on annual stop loss limits needs to carefully consider if the commercial risks imposed upon participants under the RO scheme are appropriate and manageable (i.e. annual stop loss limits need to be set at levels that avoid widespread insolvency issues, or that could present unwarranted barriers to financing for new entrants). Given that the full commercial risks faced by participants under the CRM scheme are unknown at the present time, and depend upon factors such as the detailed design of administered scarcity pricing (including the setting of the Full Administered Scarcity Price), and the development of a liquid secondary market, EAI recommends that the final level of stop loss limits are determined following further consultation with industry through the rules development process for the CRM market.

- EAI sees potential benefits in implementation of limits more granular than annual to allow participants to manage cash flow exposures and avoid insolvency issues, and ensure incentives upon participants to deliver capacity are maintained throughout the year. Care however would need to be taken in the design of these limits to ensure that they do not unduly restrict the intended effect of the annual stop loss limit. However, any final decision on such stop loss limits needs to carefully balance the need for the efficient operation of the CRM with ensuring the commercial risks imposed upon participants under the RO scheme are appropriate and manageable, thus avoiding widespread insolvency issues or creation of excessive barriers to financing for new entrants – such evidence may only become apparent post go-live. EAI recommends that the levels of stop loss limits are further consulted upon with industry.

4. Commissioning Window

- EAI supports the alignment of the commissioning window to apply in both the CRM and DS3 workstreams.

5. Implementation Agreement

- EAI supports measures that will ensure failing projects are identified at the earliest opportunity.

- EAI supports a 6 monthly reporting cycle (ala GB) which should occur in advance of the auction cycle to ensure additional capacity can be acquired if deemed necessary and apply until all milestones have been achieved.

- EAI supports the identification of projects as early basis as possible, and supports termination if substantial completion by long stop date is not achieved. This view and the view on other milestones triggering termination is however heavily contingent on the definitions of the milestones that trigger termination on which more detail is required. Partial termination for reduced level delivery should be allowed.

- The Performance Bond should be aligned with DS3 and should incentivise reliable build but without being a barrier to entry. Further definition is required if the performance bond is to act as a bid bond also.

6. Level Of Administered Scarcity Price

- EAI 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.

7. Transition

- EAI does not support option 3 – this could lead to insufficient returns for generators and therefore undesirable exits.

8. Conclusion

EAI looks forward to further engagement on the issues raised in this consultation and detailed design issues such as the stop-loss limit and performance bond before any final decisions are taken.

Yours sincerely,

Stephen Douglas
Senior Advisor
Electricity Association of Ireland (EAI)