Gaelectric Holdings Plc.

Response Paper to:

Consultation 2 on the Capacity Remuneration Mechanism

Gaelectric Holdings Plc. Response

08/02/2016

Public

Confidentiality Classifications

Strictly Private & Confidential:	The highest level of classification, the document is for the recipient only
Commercial in Confidence:	The document is commercially sensitive, it should not be disclosed outside of the recipients organization and is subject to any active non-disclosure agreements
Internal use only:	The document is to be disclosed to Gaelectric employees only
Public:	The document contains no sensitive material and is suitable for disclosure to general public

Document Details

Document Name:	Response to Consultation 2 on the Capacity Remuneration Mechanism
Revision:	Rev_1
Status:	Final
Classification:	Public

1 GAELECTRIC BACKGROUND

Gaelectric is an independent wind, energy storage, solar and biomass developer operating within the Republic of Ireland, Northern Ireland, United Kingdom and North America. To date Gaelectric holds approximately 175MW of generating assets across 9 projects in Northern Ireland and the Republic of Ireland, and a further 40MW of 'shovel ready' projects with grid connections and full planning approvals in place. Gaelectric's near term pipeline on the island of Ireland is circa 320MW with the expectation that the company will have 400MW of wind projects generating power by the end of 2017.

Through developing our portfolio of wind assets through early stage planning into construction and operation phases, we have become one of the largest independent developers and operators of wind energy on the island. Gaelectric are further involved in the development of bioenergy and solar projects in Ireland and the UK. Planning applications for 20MW of solar have been lodged in Northern Ireland, and the company has submitted over 20 applications to ESB Networks for solar grid capacity in Ireland.

In addition to our renewable portfolio, Gaelectric are developing Project CAES NI. This project has an agreed connection offer in place with SONI and its planning application has been submitted Planning NI. Project CAES NI is designated as a Project of Common Interest (PCI) by the European Commission and has been recommended for grant funding of up to €6.5million under the Connecting Europe Facility. Gaelectric and Tesla have also announced the purchase and planned deployment of Tesla Energy's first battery power utility-scale project in Ireland, and we expect to develop a 1 MW demonstration project in 2016.

2 EXECUTIVE SUMMARY

Gaelectric holdings plc ("Gaelectric") welcome this opportunity to respond the SEM Committee's second consultation on the Capacity Remuneration Mechanism (CRM) and commend the SEM Committee for engaging with industry on these issues. The CRM will be of upmost importance in addressing the "missing money" problem faced by generators while maintaining security of supply on the system and incentivising new entry. The CRM will be essential for new entrants to support investment and we welcome the proposals in this consultation for longer term contracts of up to 15 years. It is clear that DS3 represents a key revenue stream also for new entrants and we therefore support that both processes are aligned (including auctions) and that contract lengths are equally aligned (including up to 20 year contracts where the project is viewed as being in the interest of the consumer).

Alignment of both the DS3 and CRM programmes is something that Gaelectric have consistently pushed for in our previous engagements with the TSO's/RA's. We are strongly of the view that the DS3 and CRM auctions should be combined. At the most recent CRM stakeholder event (2nd of February) it was announced that there would be no coupling of DS3 and CRM auctions for the first year. Holding separate DS3 and CRM auctions may lead to considerable legal challenges for the regulators. Projects that clear the initial DS3 auction and fail to clear subsequent CRM auctions will not be able to access finance and therefore will lead to issues regarding effective procurement of the DS3 volumes. This issue is raised in the DS3 DotEcon report which indicates that in going back to re-procure DS3 could create litigation issues from "unhappy losers". Furthermore, should projects be required to agree a performance bond after clearing a DS3 auction and fail to clear the subsequent CRM auction, there must be no risk to the bond being drawn down in such circumstances.

Previous proposals under the DS3 programme have suggested that project lead times will begin from pre-qualification however no investment decision will be taken by developers until after the latter auction (DS3 or CRM) has been cleared. Only at this point will a project's financial close process begin. The risk of delays between the DS3 prequalification and CRM auctions is beyond the control of participants and therefore projects should not be subject to penalties for these delays. These increased risks will not only reduce a projects ability to attract finance but will also significantly increase the cost of that finance. Currently the CRM auction is scheduled later than the DS3 auction so Gaelectric request that ***project lead times begin after contract execution of the latter auction***. In short, until these discrepancies for project lead times are addressed, the barriers to entry will be such that project development is hindered or prevented in its entirety. It is incumbent upon the SEM

Committee to put in place a structure which supports new investment, and we look forward to engaging with the SEM Committee to ensure that the proposed design meets such requirements.

Given our comments, Gaelectric proposed the following adjustments;

- The CRM and DS3 auctions should be combined – neither of the systems for these procurement processes has begun yet so there should be no barrier preventing this.
    - This step will limit the litigation risk outlined by the DotEcon report and mitigate the unnecessary risk being created for new entrants.
- There should be separate auctions for new and existing generation, with a minimum volume auctioned for new entrants that ensures market entry. We do not support TSO discretion on whether to procure services from new entrants based on a subjective view of future prices.
- The lead time for new entrants should be ***5 years from the date of contract execution for the combined DS3 and CRM auction to allow for the completion of financial close and subsequent construction of the projects.***

We support a provider led approach, performance based approach for cross border trading with must feature a reciprocal approach from neighbouring markets. We believe however in the near term that a "net-off demand" model should be progressed given the lack of historical data with which to inform a pricing analysis that in turn would predict the de-rating for interconnectors.

Given the possibility that EirGrid are conflicted with their involvement as owners of the East West interconnector, we do not believe it is appropriate for the TSOs to inform the de-rating analysis for the interconnectors. This should instead be carried out by an independent 3rd party.

3 CONSULTATION QUESTIONS

3.1 Cross border participation

Q1. 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).

Gaelectric are of the view that the CRM cross border participation should be provider led. Capacity payments should ensure upstream investment in generation and the interconnector led/hybrid approach would be less effective in achieving this aim.

While Gaelectric support a provider led approach, we are cognisant that its implementation would result in GB based providers participating in the I-SEM CRM without reciprocating treatment given the current view being taken in GB on cross border involvement in their capacity market. Such arrangement opens the distinct possibility to GB generators receiving an unfair advantage through the ability to participate in two capacity mechanisms. Under the current GB capacity arrangements, I-SEM based providers are not able to participate. Gaelectric are of the view the concept of reciprocating treatment is paramount and this should be addressed throughout the design phase.

Notwithstanding our preference for a provider led approach with reciprocating treatment, we are aware that the GB approach for the 2nd capacity auction has settled on an interconnector led approach[1]. We understand a common European approach is yet to be agreed, and further we believe there would be a considerable degree of 'guesstimation' in trying to come up with an appropriate de-rating for the interconnectors which is broadly driven by price differences between both the I-SEM and GB. Given the lack of data available on price curves for I-SEM, we believe that it would be prudent for the SEM Committee to approach interconnector participation with caution initially, akin to the approach taken in GB ahead of the first auction.

In addition, should an interconnector led approach be progressed as an enduring solution, it is paramount that these are capable of ensuring performance. Currently no structure exists for a

[1] https://www.iea.org/media/workshops/2015/esapworkshopv/OConnell.pdf

TSO to dispatch generation in neighbouring markets and it is not therefore clear that the interconnector can or should take on a risk of which it has little or no control over. We believe that, assuming the SEM Committee indicate a preference for an interconnector led approach, the setting up of a Coordinated Balancing Area (CoBA) is the appropriate time to develop on this given this is the point at which the interconnector can begin to actively manage the reliability option.

We therefore support a "net-off demand" approach for at least the time it takes to develop the CoBA, after which a robust analysis can be undertaken for an enduring policy using historical data from the operation of I-SEM that will inform the de-rating. We do not believe it is appropriate for an interconnector led approach to be developed given the bedding in period which will take place in the first couple of years in I-SEM and the corresponding possibility that the interconnector will face a risk that will negatively impact the TUoS customer. Instead a highly de-rated "net-off demand" approach is a more prudent approach to take.

Q2. 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?

Gaelectric are of the view that de-rating of interconnectors should include forward modelling rather than solely depending on historic performance. In a general sense, historic modelling can inform future predictions (using historical price curves to validate future prices and the respective Interconnector flows), however we are facing a unique scenario whereby the basis of flow on the interconnector will evolve given the move from explicit trading to implicit trades. The current flows in the interconnectors are often perverse and make no commercial sense to those who are not hedging against physical supply and demand in neighbouring regions. This is no basis for determining future de-rating factors in I-SEM.

Forward modelling is the approach that was adopted in GB and given the future changes to each energy system it would be prudent for the SEM Committee/TSO's to undertake future modelling of interconnector flows. However, we see no basis for an accurate assessment of future flows given there is no historical price curves to inform or validate future assessment of prices in the I-SEM. Given the range of scenarios being produced as part of the EUPHEMIA assessments, we do not believe it would be prudent to predict future pricing in the I-SEM until such time as at least 2

years of data is available upon which can act as a foundation that informs future price curve estimation.

It is for this reason that we favour a highly de-rated "net-off demand" approach which strikes the balance of ensuring that too much/too little volumes is procured by indigenous service providers, whilst also ensuring that the TUoS consumer is not negatively impacted by interconnector participation based on misguided assumptions in the de-rating calculation.

Regardless of the approach adopted by the regulators, de-rating of interconnectors will be significant. Given the potential conflict of interest that may exist between Eirgrid as the owner of EWIC and TSO, Gaelectric are strongly of the view that any analysis and modelling which forms the basis of interconnector de-rating should be undertaken by an independent third party.

Q3. 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***

As an enduring solution, Gaelectric support the introduction of a reciprocating provider led approach. In the intervening period we support a net-off demand approach. This decision can be revisited after such time as is necessary to ensure adequate historic data is available to inform future analysis. Should the SEM Committee decide to progress with an interconnector led approach, our comments above stand.

Q4. 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

Q5. 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***

As outlined above, Gaelectric believe that the appropriate model is a "Net-off demand" given that whilst our preference is for performance based, we strongly believe that this should only be implemented where there is reciprocal treatment for ISEM generators into neighbouring markets. Currently GB plan to employ an interconnector led approach which negates any possibility of a reciprocating approach in the near term. We further believe that an interconnector led approach is inappropriate until such time as a CoBA is developed.

Notwithstanding this, if a reciprocal provider led approach can be developed, we believe that cross border participation should be linked to physical delivery, as is the case with indigenous providers of capacity. Therefore the pro-rata to Reliability Option approach is not an approach we favour.

Our concern regarding the "As Traded" model regards the ability to assign cross border volumes to a non I-SEM counterparty. There is not enough detail provided in the consultation as to how this will operate and we therefore recommend that the SEM Committee provide further information.

Q6. 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***?

N/A

3.2 Secondary Markets

Q7. Do respondents agree that direct secondary trading of Reliability Options should be permitted?

Gaelectric support the premise of direct secondary trading for both long and short term trades. It may be that a plant faces an extended outage and needs to back off its contract obligations and it is important that an avenue exists to direct trade the obligations to relieve themselves of same for the period of the outage.

Notwithstanding any secondary measures introduced by the SEMC for direct secondary trading, we believe it would be difficult to prevent financial trading from occurring.

Gaelectric acknowledge that credit risk and complexities surrounding the split market reference prices are risks that participants must consider when/if brokering a financial hedge of their Reliability Option position. Despite this, we believe that participants should be allowed manage these risks and engage in financial trading if they deem it appropriate. Such a system is allowed in GB where market participants are allowed to procure financial hedges outside of the capacity market mechanism[2].

Q8. Should secondary trading of Reliability Options be via an organised secondary platform? If so, which one of the options is preferred?

Gaelectric believe that direct secondary trading of RO contracts should take place on a mandatory centralised platform. While market power mitigation level are currently under consultation and it is proposed to maintain measures such as directed contracts and vertical integration, structural market power will be a feature of the I-SEM in the medium term[3]. We therefore believe that secondary trading should be developed via an organised platform in order to enhance liquidity and transparency.

[2] https://www.emrdeliverybody.com/CM/Secondary-Trading.aspx

[3] http://www.allislandproject.org/en/market_current_consultations.aspx?article=8cea08d9-02ae-4a50-8836-3874cd1d2e60

Q9. Do respondents believe that "back-to-back" trading to lay-off exposure to difference payments should be permitted?

Gaelectric support the provisions for back-to-back trading to lay-off exposure to difference payments. The credit risks involved with 3rd party default along with the complexities in brokering these deals with a split market reference price are issues that participants should be allowed to actively manage. Further we believe it would be difficult to prevent parties from financially trading.

Q10. Is there likely to be sufficient demand for secondary trading to justify the cost of the development of a centrally organised platform;

Gaelectric are of the view that the costs of establishing a secondary market would not be prohibitive. A mandatory secondary market for direct trading of physically back RO contracts would force liquidity onto the centralised platform. Secondary trading of RO contracted volumes will play an important part in allowing generators to manage their difference payments during planned outages. Similarly, forced outages may require trading at short notice which would be better facilitated by a liquid centralised market.

Moreover, there seems to be an assumption that all plants not clearing an auction will exit the market. We do not necessarily subscribe to this position given that many of the plants who do not clear are likely to be older and debt services is likely to be fully recovered. As such a plant operator may take a view that an opportunity exists outside of the CRM (as energy market revenues are no longer capped) and remain online. Such plants could enhance secondary trading liquidity in the I-SEM.

Q11. 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?

Gaelectric are of the opinion that plants should be allowed to trade above their de-rated capacity to their nameplate capacity in the secondary market. This is particularly important where de-

rating becomes overly prescriptive and does not account for the unique characteristics of individual plants on the system.

The nature of a stress event implies that all available capacity on the system will be required therefore generators capable of generating above their RO contracted volume during these time periods should be allowed to trade these to others during periods of scarcity.

Similarly, the output of certain intermittent generators will follow daily/seasonal profiles while it seems the de-rated capacity will be an average. It would be important to allow these generators to trade capacities in excess of their RO contracted volume should they be capable of doing so in a period of system stress.

When allowing participants to trade above their nameplate capacity in secondary markets, consideration must be made for the period of time for which a capacity provider's above de-rated capacity is valid. In GB it has been proposed for time periods between 1 day and 5 weeks.

We reiterate our belief that market power mitigation should be a key consideration for secondary trading going forward.

Q12. 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?

In regard to how soon after an auction a participant should be able to trade, this is largely dependent on the accuracy of the de-rating assessment. If the TSOs are taking too conservative approach, it is likely that participants will look immediately to contract up to what they believe to be their true de-rated capacity.

To an extent this should simply be a commercial decision by the participant as to the level of risk they wish to take on, however the SEM Committee is responsible ensuring that the auction integrity is maintained and therefore we would encourage the TSOs and SEM Committee to consider the market power impacts of secondary trading. If an unreliable plant operator knows that it can easily and quickly offset its entire risk to another plant after an auction, there is a

possibility of market power being exerted in the auction and for this to exert influence on the outturn price.

Subject to the market power provisions being implemented, Gaelectric support the introduction as low a time granularity product as possible to increase market flexibility and efficiency. Should hourly 1MW products be allowed, participants could trade the required volume of products to make up a larger volume/time period requirement.

Q13. 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?

Gaelectric agree that before allowing generators to participate in secondary RO markets, pre-qualification tests should be undertaken to ensure that generators are capable of providing capacity, however the value of maintaining pre-qualification access throughout the year may not be required given all plants must pre-qualify in the annual pre-qualification event and subsequent new entrants are highly unlikely to build unless they have cleared an auction (in which case they would also have pre-qualified).

It is therefore most appropriate to progress pre-qualification events each year.

Q14. Should a secondary acquirer of a Reliability Option start from a zero position against each "stop-loss" limit, or should the loss transfer?

We believe the stop loss should re-zero as to do otherwise could result in the secondary acquirer being granted something close to a free option.

For example, where a stop-loss limit is set to 2x Option Fee, and before striking a secondary trade, their difference payments for the year equate to 1.75x Option Fee. This would create an issue whereby the secondary acquirer's max risk would be;

0.25x Option Fee * portion of contract remaining

Numerically, had the primary contract holder held the contract for 3 months of a 1 year contract with an option fee of €40/kW for 1,000kW, the secondary acquirer's risk would be;

0.25x (40*1000) * ((12-3)/12)

=0.25 * 40,000 * (9/12)

=€7,500

Their revenue over this period would however be €30,000. The value of the secondary option is therefore suddenly greater than that of an option fee whose primary contract holder had amounted difference payments in the order of 0.5x Option fee for the same period.

For this example, the risk would be €15,000 for a similar sized plant, with option fee revenue of €30,000. The result is a greater risk for a secondary acquirer who acquires a contract from an otherwise reliable primary contract holder.

Our conclusion is therefore that unless the risk is re-zeroed, primary contract holders who are generally reliable but are facing a sudden risk are at a distinct disadvantage in the secondary market to primary contract holders who are generally unreliable and have massed considerable difference payments for non-delivery in stress events.

Such a situation would be completely perverse and we expect that the SEM Committee will take steps to ensure this is addressed.

Q15. Is there likely to be sufficient demand for secondary trading to justify the cost of the development of a centrally organised platform;

Gaelectric are of the view that there should be sufficient demand for secondary RO contracts to warrant the establishment of a secondary platform. There may be economies of scale that can be availed of through trading FTR's and other products on this platform which can increase its value.

3.3 Contract Lengths

Q16. Do respondents agree that plant requiring significant investment should be able to avail of longer term Reliability Options?

Gaelectric strongly support the necessity for longer term contracts to support significant infrastructural investment – particularly new entrants. New entrants **will not be able to finance their projects without long term contracts**. While Gaelectric acknowledge the risk outlined in the paper in relation to volume and price risk associated with long term procurement contracts, we are of the view that long term system security must be equally prioritised. We would remind the SEM Committee that the market is also supposed to be designed in a manner which allows new entrants to finance their activities. The enhanced system security requirements outlined in the DS3 procurement process coupled with the current plans to close down approximately 1GW of dispatchable generation over the next 5 years[4] emphasize the acute need for new flexible generation and demand. These projects cannot be financed without long term, stable revenues emanating from the CRM DS3 process. A recent report by DG Energy suggested that such contracts under and capacity payment scheme could be compliant with state aid guidelines[5].

Q17. Do respondents agree that existing plant should be restricted to reliability options with a term of 1 year?

We believe there is no reason to offer existing plant greater than 1 year contracts from competition given that such plants are currently in operation under existing conditions and further given the inefficiency this would bring to the entry/exit signals in the market and the unfair playing field it would therefore create compared to new entrants.

4 http://www.semcommittee.eu/en/market_current_consultations.aspx?article=9c34c90d-38ea-4dee-b0de-adeed6726ea0

5 http://ec.europa.eu/competition/sectors/energy/capacity_mechanisms_working_group_april2015.pdf

Q18. 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?

Gaelectric agree with offering longer term reliability option contracts to upgraded infrastructure however these contracts should be significantly less than the RO contracts for new entrants. Contract lengths for such projects have been limited to 3 years in GB and Gaelectric are comfortable with this timeframe.

Q19. Do respondents have a view on which approach should be used to classify capacity providers as "new", "upgrade" or "existing"?

Gaelectric support a transparent structure for evaluating which category each project will fall into. For this reason we support the inclusion of a cost threshold and tangible facts as the primary factors when deciding the category of a project.

We propose that the classification should be as follows;

Capital expenditure: < €175/kW:	1 year contract
Capital expenditure: €175/kW - €400/kW:	3 year contract
Capital expenditure: > €400/kW:	15/20 year contract

Q20. 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.

See above answer to Q19.

Q21. Do respondents have a view on the appropriate maximum Reliability Option lengths that should be available to new-build and upgraded plant?

We believe that contract lengths in DS3 and CRM should be aligned. In consideration to our response to Q19, we therefore believe that new entrants should be entitled to contracts of 15/20 years. As a standard measure all new entrants would be required a contract up to 15 years however where a new entrant can indicate significant public good as a result of its operation, such projects should be awarded 20 year contracts.

Q22. How do respondents view the Reliability Option lengths in relation to the five generic frameworks set out in this section?

Gaelectric are of the view that the "Generic Economic Life" is the best compromise across the five generic frameworks set out in this section however we support contract lengths which mirror that of the DS3 programme, as per our response to Q21.

3.4 Stop Loss

Q23. 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?

Gaelectric support the October to September capacity year in addition to annual stop loss limits applying over this term.

Q24. Do respondents believe that "per event/day" and "per month" limits are required in addition to the annual stop loss limit?

We believe monthly stop loss limits should be given due consideration however we are keen to ensure that this does not negate the signal that the annual limit is intended to make by created a lower effective annual limit. GB have introduced a monthly limit of 2.5x monthly revenue. We believe that any limit must create adequate cashflow issue to be an actual disincentive to unreliable plant.

Q25. Which approach do respondents favour for the definition of the Per Day/event limit?

See response to Q24.

Q26. Please provide views on the appropriate levels for the each of the proposed stop loss limits.

We support high stop loss provisions to prevent market entry for unreliable generation (new entrant and existing) and for that reason we believe that the stop loss should be circa 2x the annual option fee.

3.5 Commissioning window and implementation agreements questions

Q27. Is a period of four years from the Auction Date to the start of the first Delivery Year appropriate?

Gaelectric have consistently advocated for the alignment of the DS3 and CRM processes. Under the DS3 process, a lead time of 5 years for new entrants has been proposed and Gaelectric are of the view that a lead time of 5 years should also be offered for new entrants under the CRM. We understand the DS3 proposals sets out a timeline which begins from pre-qualification. It should be noted that no project developer or lender will sanction capital spend for a project on the basis of a pre-qualification event. Therefore for the purpose of project financing, it is an irrelevant "milestone" and there is no reason why the 'clock' should start ticking on a project from that point. Furthermore the timeline between pre-qualification and contract execution is outside of the control of the participant.

For example, if the auction results are challenged as happened in the 1st CfD auctions in GB, the timeline to contract execution will be delayed by circa 2-3 months. This is not a risk which can be controlled by a project developer, and it erodes the effective time available to develop and construct the project.

A new entrant relies on both revenue streams, and therefore the lead time for DS3 and the CRM should solely consider the date of contract execution for the latter auction. From this date, new entrants need 5 years to ensure that financial close can be reached, and from that point to mobilise and ensure construction can complete within a Target Commissioning Window. The new entrants looking to develop, and in so doing enhance flexibility and security of supply in the I-SEM, are complex pieces of infrastructure and the lead time must be commensurate with this.

In conclusion we wish to make clear our objection to a lead time beginning before any material commercial date and further to outline that we believe that should the SEM Committee implement the proposals as outlined (i.e. separate auctions, lead time beginning from before joint contract execution) amounts to a barrier to entry for new entrants.

Q28. 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?

Gaelectric agree with this position.

Q29. Are the proposed milestones reasonable?

Gaelectric have no objection to the proposed milestones

Q30. Are there any other milestones, especially prior to Substantial Financial Commitment, which could be used to add security to the delivery of new capacity?

Given that performance bonds and regular reporting will be a requirement of all implementation agreements, we believe that a cautious approach should be taken with implementing further commitments which are onerous on participants. Arguably the proposals within the implementation agreement are enough to incentivise delivery and early warning where issues arise (this is particularly enhanced where a performance bond is scaled to increase as the delivery year approaches).

Q31. What proportion of the contracted capacity is appropriate to use to identify Substantial Completion?

We propose an output in the range of 85% should satisfy the Substantial Completion milestone.

Q32. Is six-monthly reporting appropriate?

Gaelectric support the premise of 6 monthly reports.

Q33. Do any (or all) of the reports need to be independently verified?

Should potential providers be required to submit reports every 6 months, independently verifying each report would be particularly onerous for participants. We view that the Owners Engineer should act as a client impartial verifier.

Q34. Does 18 months provide sufficient time after the Auction Date to achieve Substantial Financial Commitment?

Gaelectric agree that Substantial Financial Commitment can be achieved within 18 months **from the date of contract execution**, however if DS3 and CRM are not to be procured in parallel, this milestone can only be achieved within 18 months after contract execution of the latter contract.

Until such time as contracts have been executed, progress cannot be made on a financial close process.

Q35. Is it appropriate to terminate a Reliability Option for failure to achieve Substantial Financial Commitment?

Gaelectric are of the view that some consideration must be made of a project's circumstances before deciding to terminate a CRM contract if the milestone for completion of Substantial Financial Commitment is not reached. Some provision for intermediary penalties for failure to meet the substantial project milestones should be considered before terminating a contract.

It is inappropriate to automatically cancel a contract if some capacity remains available to use. We therefore support that penalties up to the termination of a contract are developed.

Q36. Should failure to achieve any other milestones (within a suitable window) trigger termination of the Reliability Option?

As above, the impact of failure to meet milestones should be treated on a case by case basis. It is likely that failure to meet a milestone within the implementation agreement is not going to always result in failure to meet substantial completion.

Q37. Is it appropriate to partially terminate a Reliability Option if it can achieve 'Minimum Completion? What level should be set for Minimum Completion?

If the minimum completion level is achieved by a project then it seems appropriate for the portion of the CRM contract to be terminated for the volume not delivered. Similarly, the performance bond for

this portion should also be sacrificed however this mechanism should only be applied at the end of the longstop date and beyond a cure period.

This should be treated on a case by case basis.

Q38. 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?

The proposed performance bonds are likely to be a disincentive to develop "cardboard generators" and we therefore believe that a double penalty is excessive and unreasonable.

Q39. Should the I-SEM consider terminating Reliability Options if the information submitted as part of the qualification process is discovered to be false or mis-leading?

Gaelectric strongly believe that capacity holders should not be in a position to advantage themselves unfairly and this should be incentivised. We agree that a level of penalty up to contract termination should be catered for within contracts however a prudent approach should be taken. Each issue should be addressed on a case by case basis where consideration is given as to the impact of the mis-information in the first instance.

Q40. 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?

Gaelectric have no objection to setting the level of the performance bond equal to the estimated cost of the market of non-delivery of the contracted capacity. Notwithstanding this, we request that the regulators remain aware that setting a performance bond too high increases transactions costs and will bleed through into the option fee. If this approach is adopted, Gaelectric request the SEM Committee consult on a clear methodology on how this cost is calculated to increase transparency and allow prospective providers to forecast these costs and the associated risk.

Q41. 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?

Gaelectric have no major objection to the concept of performance bonds increasing as it gets closer to the long stop date.

Q42. 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?

The level at which the performance bond becomes a barrier to entry is largely dictated by the risks associated with the separation of the DS3 and CRM auctions and their associated project lead times. Refusing to align each of these programmes leaves developers vulnerable to risks outside of their control. Furthermore until such time as agreement is made on the issue of lead times, it is not reasonable to expect a project developer to provide an accurate proposal on performance bond ranges.

For the avoidance of doubt, Gaelectric support setting a bid bond high enough to disincentivise 'cardboard generators' and ensuring that the SEM Committee can be confident that they are dealing with prudent developers who are committed to developing their projects; however without certainty on the issues outlined above, it is difficult to offer an accurate figure.

Q43. 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?

Gaelectric support the implementation of a fixed €/MW level for all participants.

Q44. How should the level of the performance bond change over time? Should this have any link to the milestones?

Gaelectric are of the view that completion of the substantial project milestones should be taken as an indication of project commitment and should be reflected in the value of the performance bond which should reduce by circa 20-30%.

Q45. 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?

Gaelectric support a lead time of 5 years from the date of the later auction (DS3 or CRM) for new entrants- see response to Q 27

3.6 Administered Scarcity Pricing

Q46. Do you agree that the definition of full load shedding should be based on the actual (as opposed to forecast) events that give rise to an Eirgird Red Alert (frequency drop, voltage drop, or involuntary load reduction)?

Gaelectric are of the view that the full administered scarcity price should be based on the forecasting of a load shedding event which would then act as a (non-binding) signal for participants to comply with their contract. The aim of scarcity pricing should be to provide market signals to participants to make themselves available and ensure system security. Systems security will be best preserved by allowed balancing market prices to increase to full administered scarcity pricing to help prevent load shedding. FASP should act as a preventative measure rather than simply a reaction to load shedding.

Q47. How far should voltage fall before full load shedding is judged to have occurred?

We revert to the TSO to opine on the metrics under/above which system security is at risk.

Q48. How far should frequency fall before full load shedding is judged to have occurred?

We revert to the TSO to opine on the metrics under/above which system security is at risk.

Q49. For how long should any drop in voltage or frequency be sustained before full load shedding is judged to have occurred?

Gaelectric are of the view that technical analysis by the TSO should inform this decision.

Q50. Which of the options do respondents prefer (and why) for the enduring level of the Full Administered Scarcity Price (FASP)?

Gaelectric support the use of VoLL to set FASP. The other options (namely PCAP, EUPHEMIA or GB equivalent) suffer from a likelihood that they would actually enhance a stress event where a neighbouring market is suffering from a stress event at the same time. This is due to the fact that prices would be lower in I-SEM than neighbouring markets and as such would force export at a period where imports are required.

Q51. 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.

Gaelectric generally accept that the provision to virtually bid will prevent a loss of liquidity in the DAM.

It is not clear what market power controls are envisaged given there are numerous proposals being made, and therefore it is not possible to state that market power controls will have no effect on the proposals.

We anticipate the value of accommodating such measures will be more apparent with a higher ASP given the risk of loss of liquidity in the DAM is greater in these circumstances.

Q52. 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.

Gaelectric have no objection to a transitional period to the introduction of full administered scarcity pricing.

Q53. 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.

See above.

Q54. 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?

Gaelectric have no objection to this approach.

Q55. What should the value of X in Figure 12 be?

This price should not be set until such time as there is agreement is reached on the definition for setting the strike price which will act as a reference for this.

Q56. 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?

Gaelectric Request the SEMC/TSO's to release the ASP linear calculation as soon as possible. When preparing their auction bids, participants must be familiar with the levels of administered scarcity pricing and associated reserve values. These are values that must be priced into our option fee bids and therefore require clarity before the auction takes place.

Q57. 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?

Gaelectric support the implementation of a prudent policy ensuring the provision of sufficient operating reserve and the subsequent security of the system. Given that the SEM/I-SEM are centrally dispatched markets, the onus should be on TSO's to manage the system and dispatch plants in the appropriate timeframes during periods of scarcity.

3.7 Transitional Issues

Q58. Which of the suggested options (annual auction, block auction, do nothing) do you prefer?

Gaelectric have no strong preference in the transitional period however a block auction is likely to be appropriate if the last year of this block can be designated as a long term contract bid.

For example if a battery were to bid in the transitional period, it would be unfair to expect it to wait until the enduring arrangements to build, and therefore it is reasonable to expect that such a project, upon clearing the auction would be in a position to build during the transitional period however this would only occur if the project has sight of a long term contract at that point for the enduring arrangements.

Gaelectric are clear in our view that unless this approach is accepted, the transitional arrangements are effectively foreclosed for new entrants. A new entrant cannot build in the transitional period if it retains price and volume risk in a subsequent auction for the enduring arrangements.

In summary we believe new entrants should be allowed to bid blocks aimed at building within the transitional arrangement with the last year of that block designating a long term contract.

Q59. If you prefer the do-nothing auction, do you believe this should be accompanied by relatively low levels of Administered Scarcity Price?

Gaelectric oppose the do nothing option.

Q60. Are there any other transitional issues respondents feel that we should take account of when implementing the CRM?

As above, Gaelectric request further clarification on how both the annual/block auctions will interact with long term contracts. If a new entrant is awarded a long-term contract but complete construction before their long term contract is completed, will being awarded an annual contract under the transitional arrangements affect their long term contract.

We also request clarification on whether intermittent renewable technologies will be eligible to participate in these auction of will they be restricted to those who can guarantee capacity.

4 CONCLUSION

Gaelectric commend the SEM Committee for engaging with industry on these topics. The points raised in our response are of particular importance for new projects seeking to finance their operations, particularly in relation to the alignment of the CRM and DS3 programmes.

Long term contracts under both the DS3 and CRM programme coupled with combined DS3/CRM auctions and project lead times will be of the upmost importance for project development and ultimately the TSO's/RA's achieving their respective targets and for ensuring the development of new flexible portfolios which can respond adequately and reliably to the issues of the day.

We look forward to these issues being addressed in the upcoming decision paper and should there be any question on points raised above, please do not hesitate to contact us directly.