Response to SEM-15-014, I-SEM Capacity Remuneration Mechanism Detailed Design, Second Consultation Paper.

For the attention of:

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Introduction

Kore Energy provides energy procurement and energy price risk management services to a significant number of large energy users in Ireland and currently manages circa 2,700 GWh of electricity on behalf of large electricity users. Our clients include 5 of the country's top ten energy users and global leaders in the pharmaceutical, IT and Food sectors.

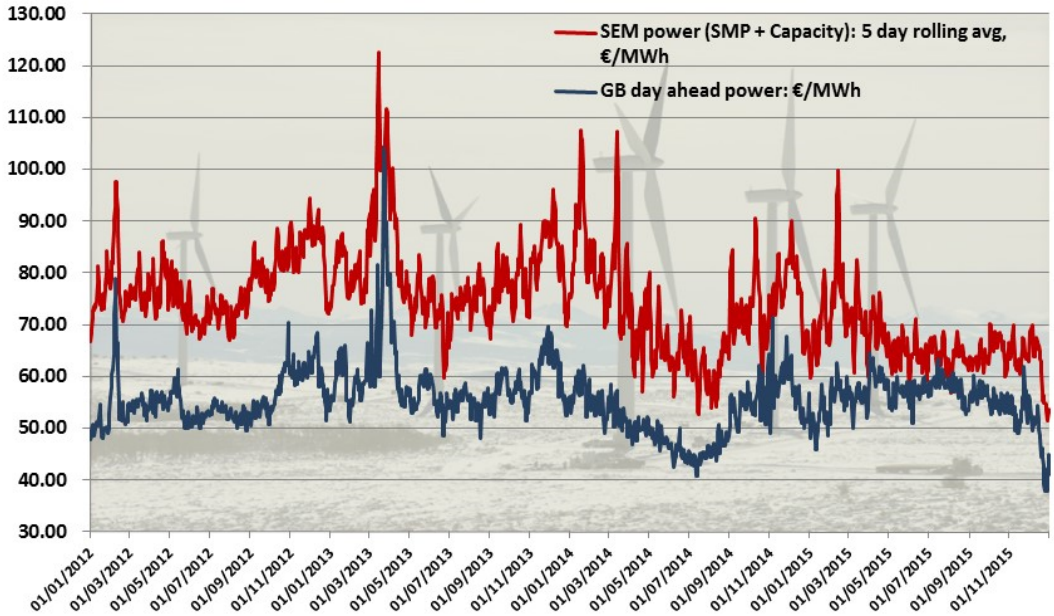
We welcome the opportunity to respond to the second consultation on Detailed Design Proposal for the Capacity Remuneration Mechanism to be included in the integrated Single Electricity Market (I-SEM) to be launched in October 2017.

Kore Energy response to selected SEM Committee questions in relation to Capacity Requirements

2.6.) Treatment of interconnectors and cross border capacity

The consultation sets out a wide range of options for the treatment of inter-connectors and cross border capacity but it does not provide any substantial detail on the impact of the various options on the cost of electricity to Irish electricity users. Historically, the price of baseload power in Ireland has traded at a significant premium to the GB market and we believe that the efficient use of inter-connectors will play a key role in improving the relative competitiveness of the Irish electricity market in a broader European context. We request that the Regulatory Authorities (RAs) continue to develop their thinking on these options at an EU level, as referenced in the consultation document, with the key objectives of ensuring optimum price competitiveness for Ireland's electricity users while also enhancing security of supply.

Ireland and GB baseload power prices 2012 to 2015, €/MWh



3.7.1) Secondary trading

3.7.1, A) Should secondary trading of Reliability Options (ROs) be permitted?

Kore Energy Response: Yes, secondary trading of ROs should be permitted in order to optimise market efficiency and liquidity. Secondary trading will ensure that market participants are positioned to respond to changes in the operating characteristics of their own portfolio and to changes in the market. It will also serve to increase the probability that the holders of ROs are actually capable of delivering on their obligation to provide capacity, thus contributing positively towards security of supply on an economic basis.

3.7.1, B) Should secondary trading of Reliability Options (ROs) be executed via an organised secondary platform?

Kore Energy Response: Yes, we believe that executing trades via an organised platform will ensure a greater degree of price transparency while it will also contribute positively to competition by facilitating greater access to ROs by smaller market participants and to new entrants.

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

Kore Energy Response: No, back-to-back trading should not be allowed. Firstly, there is no strong case in favour of it as direct secondary trading provides an effective method of trading the full risk and opportunity associated with the RO. More important, allowing the transfer of an RO to a third party that may not have the capability to provide the physical capacity is in conflict with the objective of enhancing security of supply.

3.7.1, D) In response to the various questions regarding the creation of a centralised Reliability Option secondary market platform:

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

Kore Energy Response: Given the importance of transparency and market access, we believe that the development of the platform is an absolute requirement and we believe that the RAs are best placed to ensure that it is developed in a cost effective manner.

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

Kore Energy Response: The loss should transfer as this will ensure that Generators do not "game" the market by selling options that are close to their stop loss limits, perhaps while purchasing similar options from another market participant. We believe that the key issue here lies in ensuring that the application of stop loss limits does not dis-incentivise RO holders from providing capacity. If this cannot be done, then an RO that has reached its stop loss limit should be replaced by an RO made available via secondary trading or auction.

4.7.1, A) Principle of Longer Term Reliability Options

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

Kore Energy Response: We agree that longer term (15) year ROs should be made available to new plant to ensure appropriate investment in new plant and efficient market entry.

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

Kore Energy Response: Yes, we agree that existing plant should be restricted to a shorter RO term but we believe that competition for available ROs could be enhanced by extending this to a period beyond 1 year, perhaps providing options for periods of 1, 2 and 3 years.

4.7.1, D) Stop loss limits: 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?

Kore Energy Response: Yes, we agree with this approach. In the first instance it aligns with the current gas year and existing timing for changes to various pass through charges in the electricity market. We also favour this approach as it ensures that the Winter and Summer periods for a given Capacity Year are not split.

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

Kore Energy Response: Yes, we agree with the approach of applying daily and monthly stop loss limits. However, in order to properly incentive plant availability and prevent gaming of the system, it is important that these limits are set at a substantial multiplier to the average daily and average monthly value of the annual stop loss level.

4.7.1, F) Stop loss limits: Which approach do respondents favour for the definition of the per Day/event limit.

Kore Energy Response: We believe that using the trading day to define this is the simplest and most appropriate approach.

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

Kore Energy Response: For the annual stop loss limit, the RAs have proposed a range of 1 to 2 times the annual capacity payment. We strongly advise against the use of anything close to a multiplier of 1 as this is akin to providing Generators with a "free bet" on capacity and reliability options. Notwithstanding the RAs valid concerns about the requirement to minimise investment risk, we believe that the stop loss limit should be set at a minimum of a multiple of 2 times the annual capacity payment. The stop loss limit is not the only vehicle available to a Generator in reducing its exposure to Reliability Option Difference payments. In the event of unplanned outages, changes in planned outages and unanticipated degradation in generator reliability, Generators should have the option to trade their Reliability Options in an efficient Secondary Market. In relation to daily and

monthly stop loss limits, as stated above, in order to properly incentive plant availability and prevent gaming of the system, it is important that these limits are set at a substantial multiplier to the average daily and average monthly value of the annual stop loss level.

4.7.1, Part 2 Commissioning Window and Implementation Agreements questions

This section of the Consultation documents appears to deal exclusively with the Commissioning Window for new build capacity and the timing of the auctions relating to new build (i.e. most likely 15 years rather than shorter term Auctions for existing capacity. Kore Energy's answer are provided in that context.

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

Yes, this reflects the approach taken in other key markets and provides sufficient time for new build following the auction process.

4.7.1, 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?

Yes, this approach is reasonable in terms of its timing and, as the RAs are also proposing the use of a performance bond to incentivise project completion, this should not reduce the incentive to bring a project to completion on time.

4.7.1, J) Are the proposed milestones reasonable?

Yes.

4.7.1, M) Is six-monthly reporting appropriate?

Yes, six-monthly reporting is appropriate but only if it is coupled with an appropriate incentive for completion via the proposed performance bonds.

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

Annual verification may be appropriate, particularly for smaller scale generation, once the submission of any false reporting is subject to appropriate financial penalties.

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

Yes.

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

Yes.

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

Yes.

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

Yes. The minimum completion standard of 50% used in the GB market appears reasonable. The surrender of the equivalent percentage of the performance bond in place is also appropriate although the RAs may also need to consider whether the full value of the Reliability Option should be made available to the Generator.

4.7.1, 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?

We agree, in principle, with the approach of sterilising a project under these circumstances. However, as there may be circumstances where the capacity is required and can be brought to market substantially quicker than other projects, it may be appropriate to allow such capacity to acquire capacity at a reduced payment rate during the sterile period or possibly without the application of stop loss limits.

4.7.1, 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 mis-leading?

Yes, and further substantive sanctions should be deployed against the market participant.

END.