

## **I-SEM CRM Third Consultation Paper**

**SEM-16-010**

### **Moyle Interconnector Ltd Comments**

#### **General remarks**

Moyle Interconnector Ltd welcomes the progress that has been made on establishing the new I-SEM Capacity Remuneration Mechanism. We note the recent minded-to decision that interconnectors will participate based on their availability. With that in mind, we comment on some aspects of the detailed auction design paper.

With market coupling a key feature of the I-SEM design, we note that interconnector flows will be driven by energy prices in the interconnected markets. Therefore misalignment of revenue streams for units on each side of the interconnected markets could result in sub-optimal flows on the interconnectors. With this in mind, it is important to consider the CRM model used in GB and how divergence from that model might affect market coupling. This factor will carry more influence as the RAs move towards the hybrid model, where units in interconnected markets can compete more directly with I-SEM units in the I-SEM CRM.

We offer comments in response to some of the specific questions in the consultation.

### **3. AUCTION FREQUENCY AND VOLUMES**

#### **3.2.1 Do respondents agree with the proposed approach for transitional auctions, T-4 auctions and T-1 auctions? If not, please explain.**

We agree with the proposal to operate transitional, T-4 and T-1 auctions. This enduring combination of T-4 and T-1 auctions provides sufficient lead time for new, existing and DSU units to participate. The interim auctions should provide adequate capacity for the interim period (although without an incentive for new plant). We consider the combination of T-4 and T-1 auctions provides some flexibility to refine the forecast capacity requirement near delivery. The possibility to hold an auction at T-3 or T-2 in the event that planned new plant is cancelled provides further flexibility. A further advantage of this model is its broad alignment with capacity arrangements in the interconnected (GB) market.

#### **3.2.2 What is respondents view in relation to the flexibility around the timing of the T-1 and T-4 auctions?**

Flexible timing is of value to the TSOs, but we note that, unless there are clear reasons for timing to be adjusted, auctions should be held at approximately the same date each year, in order to provide stability for participants.

#### **4. MARKET POWER**

**4.8.2 Do respondents agree that market power is a material concern in the I-SEM CRM? If no, why not? Should the SEM committee be concerned with unilateral market power, the potential for collusion or both?**

**4.8.3 Do respondents think that the overall market power control framework and package of mitigation measures set out in this section is comprehensive and proportionate? Are there any additional market power concerns that the SEM Committee should be focussing on? Should the SEM Committee bar any existing firm transmission access intermittent generator which has opted out of an auction (on grounds of retiral) from bidding in subsequent auctions, if it subsequently does not retire and/or apply other sanctions?**

**4.8.4 Do you think that firm transmission access plant which has bid at a certain point within the tolerance band in the T-4 auction (below the maximum) should be allowed to bid more capacity (up to the top of the tolerance band) in the T-1 auction?**

**4.8.5 What metrics should be used to assess whether a capacity provider is dominant, for the purpose of either applying other Bid Limits and/or controls on aggregation (the approach to setting the level of bid controls is discussed in section 6)?**

**4.8.6 Do you agree that dominant /pivotal generators should be prohibited from acting as Capacity Aggregators? Should associated businesses of dominant / pivotal generators (e.g. their Supply arms) also be prohibited from acting as Capacity Aggregators too?**

**4.8.7 Should there be a prohibition on ESB and other dominant generators providing aggregation services?**

We offer no comment on the market power aspects at this time.

#### **5. AUCTION DESIGN**

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

**5.9.2 Which auction format (simple sealed bid, multiple round descending clock, combinatorial format, i.e. Option 1 to 3 in Section 5.2) do you think is most appropriate for the transitional auctions, T-4 and T-1 auctions, and why?**

On balance we prefer the multiple round descending clock auction, since it provides increased transparency and a degree of feedback to participants on pricing.

**5.9.3 Do you have any preference for the structure of bids for the auctions? Explain your rationale.**

On balance we suggest that prices should be submitted as price/quantity pairs. This is the simplest approach and seems less likely than the supply curve option to cause 'lumpiness' issues.

**5.9.4 Do stakeholders agree with the proposed approach of adopting Option 3b to deal with the lumpiness/discrete bid problem? If not, please explain why not, and your preferred alternative approach.**

**5.9.8 Winner determination. Do you agree that the auctioneer should be able to accept "out-of-merit" bids to manage the lumpiness problem or should only in-merit bid be accepted? What rules**

**should be used to determine whether the marginal bidder is accepted (if only in-merit bids can be accepted) or to determine which out-of-merit bid should be accepted?**

**5.9.10 How do you think the lumpiness / discrete bid issue should be dealt with?**

We agree with the auctioneer should be able to accept out-of-merit bids in order to maximise consumer welfare.

We suggest option 3b is the strongest option, since it should deliver more efficient outcomes for consumers. Consumers would avoid paying for units where the marginal cost exceeds the marginal benefits.

**5.9.5 Do stakeholders agree with the approach of setting the clearing price based on the highest accepted in-merit winner, and paying any out-of-merit winners based on a pay-as-bid basis? If not, please explain why not, and your preferred alternative approach.**

**5.9.9 Price determination. Do you agree that it appropriate to pay auction winners on a “pay-as-clear” basis, with this uniform clearing price being based on the highest accepted in-merit bid price? Should any out-of-merit winners be paid a different price to in-merit winners?**

We agree with the pay-as-clear approach based on the highest in merit bid (i.e. the bid that is displaced due to lumpiness may still set the clearing price). Out of merit winners should be paid the price bid, not the clearing price.

**5.9.6 Should the SEM Committee introduce a sloped demand curve, either as a market power control, or for other reasons?**

Yes, we see a sloped demand curve as a measure to increase competition and reduce market power concerns.

**5.9.7 Winner determination. Do you agree with winners being determined purely on price offered for each Capacity Delivery Year?**

Yes.

**5.9.11 Do you have any comments on the treatment of tied bids?**

We suggest a net welfare function should be used to discriminate between tied bids given the potential impact of the issue on consumer. For example, in the event that an additional 50MW was required above the in-merit cleared volume and both 100MW and 200MW units bid their capacity just above the clearing price, acceptance of the 100MW unit would be preferred. Random selection should be avoided but the rules may need to consider what to do in the event of a tied welfare function.

**5.9.12 What is the appropriate level of information to be provided: before qualification; between qualification and the auction start; between rounds in the case of a multiple round auction; and after the end of auction?**

As an expected price taker we do not have a strong view on this but do not disagree with what is proposed in section 5.8. We would agree with publishing the volume of prequalified capacity but not necessarily the breakdown by technology or fuel type. It is not clear that such a breakdown would provide additional incentives to bid true costs.

**5.9.13 Are any additional restrictions on bidder communications (over and above existing competition law) required?**

No comment.

**6. AUCTION PARAMETERS**

**6.5 SUMMARY OF QUESTIONS**

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

**6.5.2 Do you have any comments on the overall scope / process of auction parameter setting outlined above?**

**6.5.3 If a sloped demand curve is introduced, what principles should be used to determine the slope of the demand curve, and the range within which the demand curve is sloped?**

**6.5.4 If introduced, should the sloped demand curve be different for the transitional period?**

**6.5.5 What impact do you think the sloped demand curve will have on competition?**

**6.5.6 Do you agree with the requirement for an Auction Price Cap? What principles should be used to determine the level for the Auction Price Cap/what level should it be set at?**

**6.5.7 Do you agree with the requirement for other Bid Limits?**

**6.5.8 Should the other Bid Limits be applied at the same level to all existing non-intermittent firm transmission access generators, or should the limits be technology specific?**

**6.5.9 Should the other Bid Limits be applicable to all bidders, or just dominant/ pivotal generators?**

**6.5.10 What principles should be used to determine the level for the other Bid Limits/what level should they be set at?**

It is important that the auction parameters are published in predictable, good time before the auctions, so that participants can make informed and timely business decisions.

As an expected price-taker, we do not offer detailed comments on the demand curve parameters. However, we remain cognisant of the RA's concerns on market power and understand that careful setting of certain parameters may assist with mitigation of such concerns.

**7. AUCTION GOVERNANCE, ROLES AND RESPONSIBILITIES**

**A) Do you agree on the proposed role of the TSOs with respect to the auctions?**

The TSOs are clearly well-placed to deliver and implement the capacity market rules. We consider it is important for the RAs to retain the approval role for the TSOs' work on the rules and auctions and in particular to retain a role in dispute resolution.

**B) Do you agree on the requirement for an Independent Auction Monitor and its proposed roles and responsibilities? If not, please specify what changes you would make? Should this role be combined with the role of SEM/I-SEM Market Auditor?**

Yes, an independent auction monitor is required. The proposed roles of the monitor in pre-qualification and auction operation are important given the significance of the market and sums involved. We do not see that this role needs to be combined with the SEM/I-SEM Market Auditor. The markets will operate in very different ways so there does not seem to be a lot of synergies between the roles.

**C) Do you agree with the SEM Committee's proposed approach to managing conflicts of interests in the Capacity Market Code? Are any other steps appropriate to ensure that any actual or perceived conflicts of interest are managed?**

We broadly agree with the approach outlined by the SEM Committee.

**D) Do you have any comments on the proposed auction governance arrangements?**

No comment.

**E) Do you have any views on the model and process for making modifications to the Capacity Market Code?**

No comment.

**F) Do you think that disputes in respect of the Capacity Market Code should be resolved by a similar process to TSC disputes? Should there be a separate panel for Capacity Market Code dispute resolution?**

Yes, a similar process to that applied under the TSC is appropriate. A separate panel is probably not necessary.

## **8. OTHER RESIDUAL ISSUES**

### **8.2 STRIKE PRICE**

**A) Do you agree with the proposed approach to incorporating the carbon price into the Strike Price formula?**

Yes, it is important that the carbon price is included in the strike price.

**B) Do you agree with the approach of moving to a month-ahead index?**

Yes, we agree that a month-ahead index is appropriate.

**C) Do you agree that a reference thermal efficiency of around 15% is appropriate? If not, why not?**

Yes, we agree that a low thermal efficiency peaking plant should be the reference plant.

**D) Do you agree that the appropriate oil price is the Heavy Fuel Oil price?**

No comment.

**E) Do you agree with the principles / criteria set out in Section 8.2.28, that the SEM Committee proposes to use to choose between data sources for fuel and carbon prices, exchange rates?**

No comment.

**F) Do you agree with the proposed governance / process for changes to fuel and carbon prices, exchange rates and transport adders used in the calculation of the Strike Price?**

No comment.

### **8.3 DIFFERENCE PAYMENTS SOCIALISATION ARRANGEMENTS**

**A) Do you agree with the proposed approach for setting the Supplier's contribution rate? If not, please explain.**

No comment.

**B) Do you have a preference as to which option (Suspend and Accrue or Immediate Additional Charge) should be applied to socialisation of any shortfall in Reliability Option difference payments? If not, please explain.**

No comment.