



**Response by Energia to SEM Committee
Consultation Paper SEM/16/026**

***Fixed Cost of the BNE Peaking Plant, Capacity
Requirement & Annual Capacity Payment Sum for
Trading Year 2017***

15 June 2016

1. Introduction

Energia welcomes the opportunity to respond to this SEM Committee consultation on the Fixed Cost of the BNE, Capacity Requirement and Annual Capacity Payment Sum (ACPS) for trading year 2017. As indicated in last year's consultation paper (SEM-15-032) and confirmed in the resulting decision paper (SEM-15-059), this consultation on the 2017 values is based on many of the fundamental values determined in the 2015 process. The changes that are proposed result in a marginal increase in the 2017 ACPS, with an increase in the capacity requirement being offset by an increase in the value of ancillary service revenue for the BNE associated with the move from Harmonised Ancillary Services (HAS) regime to the new DS3 regime.

This brief response is focussed on the proposed changes in the consultation paper but also includes a request to the SEM Committee to provide an evidence-based rationale for the retention of the 8-hour Generation Security Standard (GSS).

2. Energia Comments

This response focusses on the SEM Committee's assumptions around DS3 revenues and the 8-hour GSS.

Ancillary Services Deduction

From the information contained in the paper, a number of issues arise in relation to the calculation of the DS3 revenue deduction contained in the consultation paper.

First, the absence of technical information on the BNE does not assist respondents with reviewing the reasonableness, or otherwise, of the assumed position that the unit is capable of delivering all 14 DS3 products. A particular question in relation to the availability of all 14 products to the BNE arises in the context of the three products (FRR, FPFAPR and DRR) that have not been included in the interim arrangements for DS3 and instead are to be offered on a pilot basis (EirGrid refer to as 'technology trials') by the TSOs in 2017. While the assumed revenues for the BNE from these products are small, it is nevertheless important that the approach applied reflects the reality for generators in 2017.

More generally, no evidence is provided as to how the BNE could satisfy the requirement of the DS3 technical questionnaire recently circulated to generators. For a new unit such as the BNE, which does not have an insisting HAS contract, evidence must be presented of a similar 'technology type' providing the service on a similar sized system to Ireland. This requirement to provide such evidence relates to all 11 DS3 products (excl FRR, FPFAPR and DRR) that are to be rolled-out and is a requirement for such a unit to be eligible to participate in the tender.

Second, the BNE is assumed to have 175 running hours (2%) at a 60% load factor; this running hours assumption is remarkably and unjustifiably high. Energia questioned the basis for this assumption in the 2015 consultation, however the SEM Committee decision paper does not address the reasonableness, or otherwise, of the assumption but instead attempt to rely on the fact that this assumption has been used since 2007. The fact that such an assumption was used in the past is of no

relevance and in the context of the evidence previously presented to the SEM Committee on the likely running hours of the BNE, this assumption must be reviewed. There does not appear to be any reasonable basis for assuming that the BNE will have operating run hours equivalent to almost 7.5 full days of operation in a single 12-month period. These assumptions have obvious implications for a number of the assumed product revenues, including; Replacement Reserve – Desynchronised (RRD), Ramping Margin 1 (RM1), Ramping Margin 3 (RM3) and Ramping Margin 8 (RM8). Furthermore, notice times and ramp rates of the unit must be made available to respondents to allow them verify the RRD payment.

Third, the consultation paper has assumed that the BNE will be capable of providing 195.7MW of ‘Replacement Reserve – Synchronised’ (RRS), however, it appears for other synchronised services the BNE can only provide 78.28MW of capability, based on the assumptions discussed in the preceding paragraph. Put simply and notwithstanding the criticisms of the assumptions contained herein, the unit cannot provide RRS of 195.7MW during the 2% of hours it is operating when it is assumed to have a load factor of 60%.

Fourth, it is not clear that a reactive power factor been applied to the Steady State Reactive Power (SSRP) assumed revenue.

Fifth, it seems to be assumed that the full Operating Reserve (OR) range is available once the unit is synchronised – for Primary, Secondary and Tertiary (1 & 2) OR – but no further information or rationale for this assumption is provided. Clearly in periods where the unit may be assumed to operate at baseload, the OR revenue will be zero. The assumptions and approach to determining all OR revenues must be set out to afford respondents with an opportunity to fully review this aspect of the consultation paper.

Finally, it is unclear from the consultation paper what, if any, performance scalar has been applied to the calculated DS3 revenues of the BNE. As with the previous point, it is important that the approach applied reflects the reality for generators in 2017. Clarification of the performance scalar, outage assumptions and other relevant assumptions should be provided and applied to the calculations of the final DS3 revenue deduction.

8-hour GSS

In response to the 2015 consultation paper (SEM-15-032) Energia included in the appendix of the submission a report from Poyry¹, commissioned by the EAI, questioning the continued use of the 8-hour GSS by the SEM Committee in this calculation, given the GSS pursued in practice by both the TSOs and Regulatory Authorities (RAs). Energia also questioned the continued relevance of this standard and our response concluded;

Analysis of the last three years of the CPM reveal that a far higher security standard has been maintained with the consequence that the capacity payment

¹ Available here: <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-15-059p%20EAI%20Poyry%20Consultation%20Note.pdf>

sum has overestimated the IMR earned by the BNE investor over this period. Any 'ground up calculation' must address the inconsistencies in the methodology to ensure confidence in the regulatory regime.

The 8 hour LOLE used in the calculation does not reflect reality as is clearly demonstrated by the recent decision to award a contract to AES but also by previous decision such as that around WPDRS and the APC. In reality, interventions are made to target average security standard greater than the 8 hour LOLE GSS

Should the SEMC choose not to review the LOLE being used in the calculation of ACPS, it will further call into question the analysis and basis on which the Ballylumford contract was awarded to AES.²

The response of the SEM Committee was simply to dismiss this evidence and retain the 8-hour standard on the basis that such a decision preserves stability in the mechanism. This is an unsatisfactory response and an inadequate justification for the retention of the standard. The failure of the SEM Committee to undertake the necessary analysis of the appropriate GSS is poor regulatory practice and this concern is not assuaged by the justification of stability provided.

Given the 8-hour standard appears to be significantly different from the approach and practice of both the RAs and TSOs, its retention is a fundamental error in the calculation of the capacity requirement and other associated variables in the determination of the ACPS. The SEM Committee cannot reasonably dismiss this request to review the GSS in light of the evidence presented in 2015 and the increased significance of this error in the calculation of DS3 revenues for the BNE. At the very least, the SEM Committee should provide an evidence-based justification for the retention of the 8-hour standard and not simply dismiss these material criticisms of the approach on the basis that it is permissible for a regulator to maintain an incorrect approach on the basis of stability. Such a rationale heightens, as opposed to reduces, the perception of regulatory risk in the market.

More generally, the explanation of the parameters used for setting the Capacity Requirement for 2017 is deficient. The absence of specific values and generic references to key assumptions in the ADCAL calculation process inhibit respondents from providing full and meaningful responses to the consultation paper. Notwithstanding the criticisms of the 8-hour GSS contained herein, it is necessary for the SEM Committee to further address the shortcomings in the calculation process.

3. Conclusions

In this relatively brief response, a significant error (8-hour GSS) and potential gaps in the calculation of the DS3 revenue deduction have been highlighted. In respect of the former, at the very least an evidence-based justification for the current approach is required and such analysis may necessitate a change in the current approach in order to better reflect the approach and practice of both the RAs and TSOs. This

² Available at: <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-15-059g%20Ennergia%20response%20to%20SEM-15-032.pdf>

conclusion is independently supported by analysis from Poyry. In relation to the proposed DS3 revenue deduction, some further clarification is requested, particularly on the application of a performance scalar and available DS3 products, such that the approach adopted reflects the reality for generators in the SEM in 2017. The assumed running hours of the BNE are also unjustified and require urgent review.

We call on the SEM Committee to:

- 1. Restrict DS3 revenues to those products that have been included in the interim arrangements and up to but not exceeding the capability of the unit.**
- 2. Review and amend the running-hours assumption of the BNE.**
- 3. Apply performance scalars to the calculated DS3 revenues of the BNE.**
- 4. Provide details of all DS3 revenue calculations, including supporting technical information.**
- 5. Provide an evidence-based justification for the retention of the 8-hour standard or (more appropriately) apply the actual GSS used by the RAs & TSOs.**
- 6. Provide the necessary details and values to accompany the process described in the calculation of the capacity requirements.**