Power NI Energy Limited
Power Procurement Business (PPB)

Capacity Requirement and Annual Capacity Payment Sum for Trading year 2017

Consultation Paper

SEM-16-026

Response by Power NI Energy (PPB)

17 June 2016.

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Power Procurement Business

Introduction

Power NI Energy – Power Procurement Business ("PPB") welcomes the opportunity to respond to the consultation paper on the Capacity Requirement and Annual Capacity Payment Sum for the Calendar Year 2017.

Specific Comments

1. Rolling forward the BNE peaking plant cost for 2017

The consultation paper proposes inflationary increases for 2017 from the 2016 cost on the same broad basis as was used for 2014 and 2015 which were indexed off the 2013 BNE cost.

IMR deduction

It also proposed to update the deduction for inframarginal rent. In previous years we have objected to this deduction on the basis that such IMR is not actually earned (and never has since the commencement of the SEM) and our objection remains. We also note there has been a significant increase in distillate prices and current prices are broadly back to the same prices that prevailed when the 2016 decision was made (i.e. c€480/tonne).

Ancillary Services / DS3 revenue deduction

The other substantive change proposed relates to the level of Ancillary Service (DS3) revenues that the unit is estimated to earn and that is deducted from the Annualised Cost to derive the BNE cost. There are a number of issues with the derivation of the DS3 revenues the BNE unit would receive.

The first issue is whether the BNE unit would receive any revenues in the I-SEM. The TSOs indicate that there will be a qualification process for new providers. When queried on the scope of proof required, the TSOs advised at the April workshop that any new provider with technology that has not previously operated in Ireland would need to demonstrate its capability in a market of similar size and system conditions to those prevailing in Ireland before they would be able to capture any payments. Since there are no Alstrom GT132E units currently operating in the Irish market, then such a unit would not be entitled to any payments in the absence of demonstrating its capability in a comparable system. There is nothing to indicate such qualification criteria would be satisfied by the unit.

Even if the unit were to be able to satisfy the qualification criteria, the fast acting services (FFR, FPFAPR and DRR) are not yet available and hence the unit would not capture revenue for those three services.

We also note that there is an error in Table A-3 in relation to the "Replacement Reserve – Synchronised" capability. In the table the capability is shown as the full capacity of the unit (i.e. 195.7 MW) whereas the capability is less when it is synchronised and the assumption that has been used is that when dispatched the BNE unit would be loaded to 60% of its maximum output and hence the synchronised reserve can only be 40% of the maximum output, equating to

78.28MW (i.e. the same capability as is shown for the Ramping Margins when synchronised).

Finally, the calculations assume no “performance scalars” being applied which again results in the DS3 revenues being over-stated. Given the lack of any historic performance data, performance scalars based on the average industry performance should therefore be applied.

2. The Capacity Requirement for 2017

We commented extensively on the capacity requirement derivation in our response to the full BNE consultation conducted during 2015 for the 2016 Annual Capacity Sum, and our concerns and objections remain the same. The continued use of an 8 hour Generation Security Standard when it is clear the TSOs require a higher standard in practice remains as a major flaw.

Similarly the determination of a capacity requirement of 7,267MW relative to a TER peak demand of 6,888MW, giving a plant margin of 5.5% highlights that the capacity requirement derived would not provide even an 8 hour GSS and does not tally with the inherent requirement set out in the 2016-2025 All-Island Generation Capacity Statement. We provided substantive evidence in relation to this last year and the analysis for this year would demonstrate the same inconsistency.

These errors were not corrected in the decision for 2016, largely justified on the basis of retaining consistency with the previous methodology, notwithstanding it is obviously wrong. This contravenes good regulatory practice and methodologies should be revised where they are found to be seriously flawed.

The process described and the parameters used in the determination of the Capacity Requirement through ADCAL is opaque. There are comments such as “*The wind traces are aligned on a day-by-day basis with the load traces described earlier*”, which are largely meaningless, particularly in respect of wind which is inherently volatile and hence it is not clear what daily alignment does. It would be more helpful if Eirgrid published the data they use as that would enable proper consideration of the process upon which comment could usefully be provided. A simple example relates to comments under Step 11 of the ADCAL process which refers to calculating a Wind Capacity Credit based on some other methodology which is undefined and for which no figures are provided. The lack of information means it is impossible to provide any meaningful or substantive comment.

We also note Figure 3 seems incorrect as the graph does not line up with Table A-2 as set out in Appendix 2 of the consultation paper.