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IWFA has been pretty clear from early on that the design of I-SEM is not correct, in that it compromises renewables, which are expected to produce 40% of the island's electricity by 2020, and that will really have to be more like 50%, while a lot more will have to be done again as we approach 2030. The mixture of market ideology and deference to incumbents implicit in the design is backward looking and contrary to the intent of energy policy on this island and in the EU.

The Energy Trading Arrangements (ETA), based on the EU Target Model and Network Codes, expect generators such as wind-farms to perform like dispatchable conventional plant, while the world is moving on to the management of balance between variable demand and supply through smart grid, storage (both power and heat) and flexible demand. By requiring both fossil & wind to be 'balance

responsible' against their Day-Ahead Market position (on average 24 hours, and up to 36 hours ahead), an un-level playing field has been created, unnecessarily. That creates an error for wind, which from then on sets it at a gross disadvantage. This has been recognised by senior European Commission officials, who can see that balancing wind against its Final Physical Notification (FPN) at the 1 hour gate closure, and socialising the rest of the balancing cost, would restore some sort of a level playing field.

Not only have the RAs rejected that point, but SEMC has gone on to multiply the effect of it on variable renewables like wind by designing a hugely volatile balancing market, and incorporating Administered Scarcity Pricing, while failing to produce a viable Intra-Day Market for I-SEM Go-live. As a consequence, the Irish Government in particular is struggling to contain the cost risk this creates within its REFIT support scheme, and the result is an effective dismantling of that scheme.

As for the Capacity Remuneration Mechanism (CRM), the wrong approach to ETA is compounded by offering capacity payments on the basis of a Reliability Option (RO), an anachronism that once again is looking to the past in the design concept, rather than looking forward to the electricity markets of the future. Variable renewables are at an even more serious disadvantage in this model, and when subjected to the proposed Stop-loss factor of 1.5, they will be unable to participate, while the more flexible fossil plant will. It is to be noted at this stage that the auction design as it stands does nothing for new entrant flexible conventional generators, so the only recipients of capacity will be the conventional incumbents.

To ensure that no renewables see any value for their capacity, the RAs have adopted a rule set that removes negative capacity charges from *de minimis* generators (and realistically, we expect this approach to be extended to Imperfection charges). While the SEMC now, belatedly, proposes to consult on that, we have been informed that the decision stands, which makes a mockery of the consultation process.

The insults keep coming, and the de-rating of wind, expected to be at a level of some 15-20%, puts yet another nail in CRM from wind's point of view.

But the current paper seems to pull up the drawbridge altogether, so as to restrict any possible CRM benefit to the incumbent conventional generators. The compounded anomalies in the I-SEM design have apparently revealed a major gap, in that the conventional plant required to stabilise the network may not get CRM contracts when they claim they need them (which they don't after 10 years of SEM's CPM contributed heavily to their capital costs). So the SEMC has now decided to turn a nominally competitive capacity market into a barely concealed handout to the incumbents, using the laughable notion of 'locational signals', as if somehow they are expected to move their plant around in response to those signals. Having excluded everyone else, in particular new entrant flexible conventional plant, SEMC has come with a miraculous design that only pays incumbents, and is thus even worse than the CPM, where at least everyone was treated fairly. We fail to see how this worsened design can gain state aid approval.

If the SEMC insists on continuing with the RO model, then it should be heavily amended to restore fairness and common sense, as well as avoiding illegal state aid, while also reducing cost. The only projects that really require capacity payments at this juncture, possibly with a locational dimension, are the new entrant fossil plants. New entrant renewables should be able to receive adequate support (assuming REFIT is kept whole), although out-of-support renewables would struggle. Incumbent fossil plant do not need capacity payments and certainly do not need a useless locational signal. In the absence of the Bidding Code of Practice (BCOP), that plant can bid slightly higher prices to contribute to their capital costs, raising the energy price, in order to also adequately remunerate all renewables. The RO should be restricted to new flexible plant, and heavily reduced in scale as a result, transferring the saved funds to Ancillary Services and/or to reducing the cost to

the consumer. State aid approval should be much more readily available in that case.

The accumulating insults to our sector leave us with very little option but to bring these issues to the attention of the European Commission, with a view to having them knock some sense into the collective heads of SEMC regarding the design, or failing that, to simply refuse state aid approval of the CRM in its current form.

Yours etc,

A handwritten signature in black ink, appearing to read 'James Carville'. The signature is stylized and includes a large, sweeping flourish at the end.

James Carville,
Chairman