

SEM-16-052

Capacity Remuneration Mechanism - Locational Issues - Consultation Paper

September 2016

Moyle Interconnector Ltd Response

Moyle Interconnector Ltd welcomes the opportunity to comment on this consultation paper and offers brief comments below.

2 OUTLINE OF ISSUE AND PROPOSED SOLUTION

2.6.1 Do you agree with the assessment of the potential for exit and lack of new entry during the transition period set out in this section, and do you think that the potential for exit creates a security of supply issue given locational constraints?

We agree that the combination of locational constraints and the potential for exit may create a security of supply issue.

2.6.2 Do you agree that locational constraints should be incorporated in the CRM? Please elaborate your rationale in your response.

The all-Island network is significantly constrained. Units that require the support of capacity revenue and which are required for security of supply do need to be catered for in the CRM. However, the way in which such necessary units are rewarded must be fair, transparent and not excessive.

2.6.3 Feedback in relation to the specific Grid Code requirements are sought in respect of the following:

- The extent to which the Grid Code requirements can be relied upon to manage exit of plant which does not obtain a Reliability Option;
- Whether it is appropriate to provide assurances that generators which do not obtain a Reliability Option in the transitional auctions (which happen on a T-1 basis) be released from their obligations to give 3 years notice in accordance with the Grid Code; and
- Whether the Grid Code requirement should be extended from 3 years notice, to say 3 years 6 months to align with T-4 auction timings.

We agree with the SEM Committee's comments that a generator which is not part of a portfolio might not in practice be bound by the grid code requirement if it becomes insolvent, but a portfolio generator might be more influenced by the requirement.

The grid code notice requirement exists for a good reason. While events such as insolvency might preclude the full notice period, the requirement should remain since its intended purpose is still valid. There should be no need to extend the notice period.

2.6.4 Do you agree with the key principles proposed for any locational capacity framework within the CRM?

We generally agree with the principles that the SEM Committee has set out. In particular we emphasise the need for simplicity and transparency in the process to define deliverability constraints.

2.6.5 Do stakeholders agree that clear and large existing capacity delivery constraints should be reflected within the CRM auction, for example limiting this to the North-South constraint and the Dublin area constraint?

We agree that the CRM should have means to deal appropriately with clear and large delivery constraints. However, caution needs to be taken with the definition of 'clear' and 'large' so that the process is transparent and does not result in unjustified discrimination where units in areas with similar locational constraints are treated differently.

2.6.6 Do stakeholders agree with the high level proposed solution for dealing with locational capacity issues?

We agree that accepting out of merit bids to address locational constraints is a straightforward way to address this problem, as long as the processes for identifying such constraints are transparent and as long as constrained units are not in a position to distort the capacity market through their bidding behaviours.

For example, a unit which knows it is required on the system for reasons of locational constraint might bid higher in an auction in the knowledge that if its bid did not clear in the auction than it would be taken out of merit. In this case accepted out of merit bids should be subject to the same (or very similar) criteria that permit an existing unit to bid above the price-taker threshold, that is the unit must be able to justify its higher Net Going Forward Costs.

2.6.7 If you do not agree with or have further view any of the proposals or assessment set out in this section, please outline why and where relevant suggest alternatives.

No further comments.

3 AUCTION DESIGN FRAMEWORK

3.6.1 Which option do you prefer for the Auction Design Framework and why?

We broadly agree with the preliminary view articulated in the paper, that is options C and D, heuristic and combinatorial approaches are likely to offer the optimum determination of winners. For practical implementation reasons option C appears to be a sensible choice for an interim period.

3.6.2 Should the capacity price be set equal to: a) the highest-priced bid accepted in the unconstrained merit order; or b) the highest-priced bid which is both: accepted in the unconstrained merit order; and selected as a winning bid after lumpiness and locational considerations have been resolved?

The capacity price should be set to at least the highest price accepted in the unconstrained merit order, since this price is representative of the costs of maintaining the required volume of capacity on the system, ignoring constraints.

However, the real cost of maintaining capacity in the constrained system should take account of those units whose bids are accepted out of merit for locational reasons. For this reason we suggest that the price of those accepted out of merit bids should set the capacity price.

While units that are required for locational reasons might have their price scrutinised and set at Net Going Forward Costs, these units should still be considered when the clearing price is set.

Conversely, if the bid of highest priced in-merit unit is not accepted, the bid of the next highest in-merit bid which was accepted is not representative of the required costs of the units on the system as a whole and should not be used to set the capacity price.

3.6.3 Should a bidder that would have been accepted in an unconstrained auction but which is not awarded an RO receive a “constrained-off” payment in the CRM? If yes, how should the “constrained-off” payment be determined, and why?

We prefer option 1, no compensations, for reasons of simplicity, lowest consumer cost and to assist with state aid rule compliance, as articulated in the paper.

3.6.4 How should local capacity deliverability constraints be defined?

We prefer option 3, since the target quantity for each constrained area reflects local constraints only and it should lead to a more efficient solution.

4 LONGER TERM CONSIDERATIONS

4.4.1 Should the inclusion of locational capacity delivery constraints in the CRM occur in T-1 auctions, T-4 auctions, or both?

Capacity delivery constraints should be considered in both T-1 and T-4 auctions.

Without such consideration at T-4 capacity might be procured which is not capable of delivering or capacity might not be procured in a location where it is required. This would then need to be fixed in a T-1 auction, even though the total volume procured at T-4 might still be adequate at T-1.

Without consideration of constraints at T-1, additional capacity required to top-up the volume procured at T-4 might simply be in the wrong location to deliver.

4.4.2 What circumstances or criteria should be considered in relation to the T-4 auctions being conducted without explicit consideration of locational capacity delivery constraints?

The whole premise for addressing locational issues in the CRM is that the system is not indifferent to the location of capacity and that constraints affect the need for capacity in certain locations.

Therefore in order that any auction can be conducted efficiently without explicit consideration of locational factors the locational constraints need to have become immaterial by the date of delivery of the capacity obligation. This might mean an investment in infrastructure to reduce or eliminate a constraint (with due consideration to realistic deliverability before the delivery year) or introduction of other clear signals (e.g. GTUoS) which will influence participation in the CRM depending on location.

4.4.3 Are there any further considerations that should be taken account of regarding the longer term management of locational capacity delivery constraints? If so please detail your rationale for these.

No further comments.

5. LOCAL SECURITY OF SUPPLY AND MARKET POWER

5.1.1 Do you believe that the suite of market power controls set out in CRM Decision 3 are sufficient to address any additional market power issues raised by local security of supply considerations? If not, what additional measure would you propose, and why?

We do not propose any additional measures.