SEM Committee

Integrated Single Electricity Market (I-SEM)
Capacity Requirement and de-Rating Factor Methodology
Detailed Design

Consultation Paper SEM-16-051

Consultation Response from

October 2016

Introduction

Bord na Móna welcomes this opportunity to respond the RA's Interconnector De-rating paper for ISEM as well as to the TSO's paper setting out the broader methodology for determining the Capacity Requirement and De-Rating Factors.

We recognise the difficult task and the good work which underpins the detailed analysis used within these documents however, because of the short response timeline, as well as the number of other recent responses requiring attention, there has been only a limited resource to respond to some of the questions posed.

Comments & Recommendations

While we have comments relating to both papers we begin with our considerations regarding the **Interconnector De-Rating paper.**

Bord na Móna has a number of concerns with the most fundamental being the danger of system tightness in SEM which would likely come about if the Interconnector de-rated capacity was too high and if non-winning plant at auction had left the market.

This may lead to an under-procurement of capacity at auction which in the long run could have negative impacts on overall social welfare.

During the preparation of this response Bord na Móna was formulating a position that a more cautious approach to Interconnector de-rating is required given that the assumptions and scenarios used to date in the consultation do not adequately reflect the technology risk associated with HVDC Interconnectors. Unfortunately, fate conspired to demonstrate how real this fear proved to be as Eirgrid issued, last weekend, a notice indicating that EWIC will be forced off until February next year. In contrast to other capacity providers experience has shown that the technology risk associated with interconnectors unfortunately frequently results in relatively long off periods, rather than a more timely repair.

This brings into focus that the level of Interconnector forced outages expressed within the methodology are patently under-represented. It appears that the historical extended Moyle forced outages were taken out of the de-rating calculation, thereby boosting the final calculated availability. The fact that the indicative de-rating for Moyle is at 88% de-rated capacity would not appear to reflect its historical forced outage rate.

We highlight below a number of additional factors which would suggest that a more cautious approach is required:

- The calculation effectively assumes 100% coupling; the fact that coupling will not be in place over all timeframes will have a reducing impact on effective interconnector capacity. We understand that the future intra-day market design platform will not facilitate 100% coupling.

- Somewhat related, it is unclear from the consultation if due consideration has been taken into account of the limitation on physical deliveries across the interconnector. Interconnector flows are characterised by finite ramping rates, thereby reducing effective capacity.

- Perhaps the largest assumption within the IC de-rating methodology consultation is that available capacity will be set by 100% of flows from GB to SEM. There is evidence to suggest that this will not be the case:
    - Forecasts suggest that GB is facing scarcity over the coming years which will result in higher local prices which could encourage flows from SEM to GB – reducing the effective capacity potential from GB to SEM
    - In determining economic Energy flows across the Interconnector the impact of the Carbon price floor in the UK will be another driver tending to push up prices in the UK potentially encouraging flows from SEM to GB, thereby absorbing effective interconnector capacity

- Finally we believe that there has been insufficient scenario analysis of the impact of coincident scarcity in SEM and GB

- <u>Recommendations</u>

    - Objectively justify and, where necessary, revise the assumptions used in the calculations.
    - Conduct more scenario analyses to better reflect new market dynamic, coincident scarcity events, the technology constraints such as ramp rates and long repair times, etc, so as to reflect more accurately real operational potential scenarios.
    - To be mindful that social welfare costs could arise from a scarcity event due to suppliers being left short because of imports, for whatever reason not materialising, and the resulting increase in the hole in the hedge.
    - To generally adopt a more cautious approach until such time as there are evidence based reasons to raise interconnector de-rating factors to the levels shown. There is not yet line of sight as to when Interconnector capacity between SEM and GB can be regarded as a reliable contributor towards long term secure supply.

Regarding the **<u>TSO's paper setting out the broader methodology for determining the Capacity Requirement and De-Rating Factors</u>**:

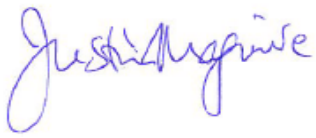
- We would highlight that the cost of over-procuring capacity is less than the cost of under-procuring. Our recommendation in this regard is to be more conscious of the negative social welfare implications of potential scarcity events arising from under-capacity purchase at auction, where such under-capacity is effectively priced at VOLL, whereas over-capacity is priced at CONE at worst, being a considerably lower figure.
- We believe that the Reserve Requirement, at its current provision of 444MW, should be altered to reflect EWIC. At 500MW, we believe that it should represent the largest single infeed, particularly at such a high de-rating factor. Further, we support the approach that the provision of operational reserve is included in the capacity requirement calculation.
- A more general point relates to the Technology Category groupings and the question as to whether it may be more appropriate to have separate technology bands depending on the fuel source as well as, or rather than, the technology type. We do not have a firm position on this now but raise the point for potential consideration at a later stage.

- In relation to the setting of tolerance bands, we do believe that they should be non-zero and that the range could be tight and generally not greater than the genuine range in the technical characteristics of plant within that technology. By exception a greater tolerance might be permitted where the need could be rationally explained.
  We note that the Committee's minded position is to set tolerance bands to zero and that they would want an alternative view to this to provide evidence or quantitative analysis. However, such is the number and variety of consultations with closing timelines, and pressure on resources, that we are not in a position to express more than a subjective viewpoint at this stage.

Final Recommendation

Our recommendation would be, in recognition of the complexity of the task given the number of interacting parameters including markets in early stages of development as well as of technology constraints relating to interconnectors, that it would be prudent to adopt a more cautious approach in setting capacity than is outlined in the papers.

Finally, we are available (and would welcome the opportunity) to discuss the contents of this submission with the TSO & RAs if deemed necessary.



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